Advanced MANAGEMENT

VOL. XXI NO. 6

Featuring . . .

Management Development in Small Enterprises

A series of outstanding articles and reviews of particular interest to small businessmen, by authorities participating in the S.A.M. National Small Business Conference, June 7-8, 1956.

Plus . . .

Prerequisites For The Guaranteed Annual Wage
Henry C. Thole and Charles C. Gibbons

Industrial Engineers As Production Executives
Edward L. Page

Advancing The Society For Advancement Of Management

ALL institutions originate and grow strong only through serving a deep social need. All institutions tend, once having originated and become strong, to become an end in themselves. The only protection against this institutional "hardening of the arteries" and "stiffening of the joints" is the frequent reidentification of and rededication to the current social needs.

The Taylor Society began from students of Taylor pressing forward in their own training and in the further development of Taylor's work. It is clear from Taylor's writings that he envisioned the across-the-boards development of scientific management. However, actually, as was natural, he and his disciples began being scientific in a rather limited area. They were concerned mainly with the time and motion study in the shop. It was perfectly natural that scientific management should, for a while, be identified in the minds of both the public and of the practitioner with the problems on which it started. Accordingly, there has been some tendency for the Society for Advancement of Management to perpetuate this restriction of interest.

However, if we now go back and find out what are the manager needs at this time in management science, it seems clear that Taylor would now call on us to go forward to the whole of his philosophy. He would challenge us to evade the temptation to "argue about dividing up the surplus" and, instead, to "center our effort on increasing that surplus." He would challenge us to be scientific about *all* managing problems including human relations, union negotiation, management development, economic forecasting, production planning, automation, and linear programming.

If Taylor were living today he would almost certainly point out that the entire American system must be advanced and not just a few pioneering companies. This advance would entail the development of a genuine management profession in all companies at all levels. This would certainly require a *widespread, continuous, on-the-job local development* activity on the part of all managers. In other words, his Society today would have to advance not merely in industrial engineering but in the whole of American management. In this sense "advancement" in our Society's name would mean *scientific* advancement both in *research* and in *utilization.* Accordingly, each local chapter responding to the basic need of its community must provide a research and training center, enabling all business management in that community to become increasingly scientific in solving the production, distribution and development problems of their own community in its appropriate community-responsibility for the American way of life. The issues of history in our time are issues of industrial and economic power. There are *several* ways in which we could fail to meet those issues. We might allow a slave power system to out-produce free men. We might fall apart amongst ourselves contending over dividing our own production. We might stagnate by lack of research or "plow back" of capital. There is only one way that we can escape all three ways of failing—only one way we can succeed. That way is decentralized initiative in developing free and scientific attack on problems of production, distribution and personnel development.

The S.A.M. chapter which leads its community and all community resources to a focus on this community problem will be choosing the only appropriate way of honoring Frederick Taylor and of leading the world toward the mastery of its destiny, both economic and social. It is S.A.M.'s mission to give America "men to match her mountains; men to match her plains—men with empires in their vision, with epochs in their brains!"

F. F. BRADSHAW

ADVANCED MANAGEMENT

JUNE 1956
VOLUME 21 NO. 6

Editor: Joseph H. Jackson
Production Editor: Beatrice Jones

PUBLICATIONS COMMITTEE

AMES J. BAMBRICK, Jr., Labor Relations Specialist, National Industrial Conference Board, 460 Park Avenue, N. Y. C.

WARD SCHULTZ, Director of Personnel, R.C.A. Laboratories, Radio Corporation of America, Princeton, N. J.

L. N. SEARES, Vice President, Remington Rand Inc., 315 Fourth Avenue, N. Y. C.

NATIONAL OFFICERS: 1955-1956

esident—F. F. BRADSHAW, President, Richardson, Bellows, Henry & Co., New York, N. Y.
st Vice President—JOHN B. JOYNT, Manager, Management Services Dept., America Enka Corp., Enka, N. C.
cretary—DAUSE L. BIBBY, Exec. Vice President, Daystrom, Inc., Elizabeth, N. J.
easurer—HOMER E. LUNKEN, Vice President, Lunkenheimer Company, Cincinnati, Ohio
rector-at-Large—GEORGE B. ESTES, Chief Indus. Engr., Republic Aviation Corp., Farmingdale, L. I., N. Y.
ecutive Vice President—HAROLD R. BIXLER.
ce President of Civic Affairs—GEORGE M. GOETTELMAN, Johnson & Johnson, New Brunswick, N. J.
ce President, Distribution—AL N. SEARES, Vice President, Remington Rand, Inc., New York, N. Y.
ce President of Industrial Engineering—RALPH M. BARNES, Professor of Engineering & Production Management, University of California, Los Angeles, Calif.
ce President, Management Research and Development—RALPH C. DAVIS, College of Commerce & Administration, Ohio State University, Columbus, Ohio
ce President, Material Handling—MATTHEW J. MURPHY, Editor, Factory Management and Maintenance, New York, N. Y.
ce President, Membership—PHIL CARROLL, Professional Engineer, Maplewood, N. J.
ce President, Senior Chapter Operations—J. RICHARD JEFFREY, The Jeffrey Manufacturing Co., 1st Ave. and 4th St., Columbus, Ohio
ce President, Seminars—LESTER F. ZERFOSS, Staff Advisor for Executive Development, American Enka Corp., Enka, N. C.
ce President, University Chapter Operations and Development—HAROLD FISCHER, Professor of Business Administration, Franklin & Marshall College, Lancaster, Pa.
ce President, Central Region—FRED E. HARRELL, President & General Manager, Marquette Metal Products Co., 1145 Galewood Drive, Cleveland 10, Ohio
ce President, Middle Atlantic Region—BRUNO A. MOSKI, Director, Industrial Engineering, Yale & Towne, Philadelphia
ce President, North Central Region—BERNARD F. OSWALD, Plant Engineer, The Glidden Company, Chicago, Ill.
ce President, Northeastern Region—E. LESLIE PRIESTMAN, Director of Industrial Engineering, Atlas Plywood Corp., Boston, Mass.
ce President, Southeastern Region—MAURICE R. BACHLOTTE, E. I. du Pont de Nemours Co., Old Hickory, Tenn.

NATIONAL OFFICE STAFF

AROLD R. BIXLER—Exec. Vice President
NCENT A. FLYNN—Research Director
BERT H. LAWS—Economics Program Director
SEPH H. JACKSON—Publications Director
ARION CUSICK—Office Mgr. and Asst. Treas.

The editor will be pleased to review manuscripts submitted f publication, but will not be responsible for loss in transit, e custody or otherwise.

SCLAIMER: The views of the authors are not necessarily se of the Society for Advancement of Management. S.A.M. l not be responsible for any liability that might develop a result of articles published in this magazine.

"Through research, discussion, publication, and other appropriate means to conduct and promote scientific study of the principles governing organized effort in industrial and economic life . . . for the general betterment of society . . ."
S.A.M. Constitution

CONTENTS

Advancing The Society For Advancement of Management 2
by F. F. Bradshaw

Management Development In Small Enterprises 4

Small Business Plans For Profit 5
by Wilford L. White

Industrial Engineers As Production Executives 8
by Edward L. Page

Marketing—Last Frontier Of Scientific Management . 9
by Charles W. Smith

New Management Writing 14
"How To Organize and Operate A Small Business"
by Pearce C. Kelley and Kenneth Lawyer
"Personnel Management In Small Plants"
by Alton W. Baker

Recommended Readings For Small Businessmen 15

Gilbreth Award Presentation At 11th Annual Conference 16

Coordinated Management For Small Business 18
by Clifford C. James

Is Small Business Managed? 22
by Phil Carroll

Prerequisites For A Guaranteed Annual Wage 25
by Henry C. Thole and Charles C. Gibbons

Advertising Section—Classified and Professional 30

ADVANCED MANAGEMENT, published monthly by the Society for the Advancement of Management, Inc., 74 Fifth Avenue, New York 11, N. Y., is merged with MODERN MANAGEMENT, and is successor to The Society for the Advancement of Management Journal, the Bulletin of the Taylor Society and of The Society of Industrial Engineers. Reentered as second-class matter, December 23, 1949, at the Post Office at New York, N. Y., under the Act of March 3, 1879.
Copyright, 1956, Society for Advancement of Management. Permission must be obtained for reprinting, digesting, or quotation.
Subscription rates: $8.00 per year. Single copies: 75 cents (members); $1.00 (non-members). All members receive this publication, for which $4.00 of their dues is allocated. Reprints of articles readily available in quantity, price schedule on request. An index to ADVANCED MANAGEMENT is published annually, and the contents are also indexed in Industrial Arts Index, available at Public Libraries. Notification of address changes must be given four weeks in advance.

About This Issue . . .

Management Development In Small Enterprises

THE vast majority of business enterprises in the United States—perhaps more than 95%—may be classified as "small business" under almost any reasonable criterion. In total, small business is big business. Excluding farms, it is said that there are nearly four million small business firms in the United States, over 60 percent of which are in retail trade and service categories. Although the large firms apparently dominate many industrial categories, small firms still do a large share of the total business in the country—in fact, they are relatively about as important today as they were sixty-five years ago when the Sherman Act was passed.

Not only is small business big business, it is important and significant business. The central idea of the American economic system is freedom to engage in enterprise. To assure freedom of the market place, there must be opportunity to compete. The full expression of personal initiative and judgment must be assured as vital to the well-being of the whole economy. The small business is centrally significant in the accomplishment of this task because it is frequently the vehicle for expressing our most important economic resource: enterprise.

It is recognized, of course, that the small business firm faces a number of special problems in a highly industrialized economy. Frequently small companies are unable to use the many highly specialized talents required in the successful operation of modern business organizations. They may be at a disadvantage in their search for investment capital. They may lack the resources for influencing potential buyers. The management may be seriously handicapped because of limited point of view and "know-how."

The rate of mortality among small business firms appears to be relatively high. An analysis of the causes seems to indicate that the firms fail not so much because the management is unable to carry on the day-to-day operations, but because it is unable to see and understand some of the most basic problems involved, and to bring proper knowledge to bear in their solution. A Dun and Bradstreet study of the causes of failure in 1953 lists "incompetence" as accounting for more than 55 percent of the failures; "unbalanced experience" as responsible for almost 15 percent; and "lack of management experience" as accounting for 9 percent of the failures. Although these classifications are not sharply defined and may be subject to questions, it is certain that lack of over-all understanding of management problems is frequently the explanation of small business failure.

In an effort to be of assistance to small business owners and managers, the Society for Advancement of Management, with the cooperation of the U. S. Small Business Administration, organized a two-day national conference program devoted to the theme of "Developing Profitable Management for Small Business," held on June 7-8 in New York. The series of articles and reviews about small business in this issue of *Advanced Management* is a part of that program.

Wilford L. White, Chief of the Managerial Assistance Division of the U. S. Small Business Administration, leads off with an article entitled, "Small Business Plans For Profit," in which he makes a significant distinction for the manager between the *operation* and the *administration* of a business, and discusses some of the main administrative problems with which a small businessman must grapple if he is to manage his firm smoothly and efficiently.

In an article entitled "Marketing—Last Frontier of Scientific Management," Charles W. Smith, Consultant on Marketing with McKinsey & Company and recently elected President of the American Marketing Association, discusses prevalent attitudes toward more scientific marketing procedures and shows how they can be used by the small businessman to vitalize all phases of his marketing activities.

"Is Small Business Managed?" asks Phil Carroll, Professional Engineer and S.A.M. Vice President. He shows how work standards can be used in the small business to reach more basic and accurate measurements of the work the company is doing, leading to the establishment of significant business trend lines.

Clifford C. James, Dean of the School of Business, Industry, and Management of the University of Baltimore, describes the life cycle of a small business and analyzes the planning, building, and controlling which the small businessman must utilize in order to properly coordinate his business, in his article entitled, "Coordinated Management For Small Business."

The small business features in this issue are rounded out with two book reviews, one by Wilford White of the book, *How To Organize and Operate A Small Business*, and the other by Robert Schaffer, of Fred Rudge, Inc., of *Personnel Management In Small Plants*. Wilford White has also provided the series of "Recommended Readings for The Small Businessman."

While this series of articles is not a report of the proceedings of the S.A.M. Small Business Conference, it does utilize some of the principal contributions made by the twenty-five small business authorities participating in the program, with which the Society contributes toward management development of small enterprises. ■

Do you have to make too many emergency decisions in managing your business? Do you tend to over-emphasize what you know best? Is your cost control adequate? Do you adapt quickly to changing business conditions? The ten most important and current administrative problems of small businessmen, as discovered in a survey, are described and analyzed here, and practical solutions proposed.

Small Business Plans For Profit

By Wilford L. White

Chief, Managerial Assistance Division
U. S. Small Business Administration
Washington, D. C.

SHORTLY after World War II, I entered the office of Walter Brown, the owner of a small machine shop in central Connecticut. It was a small room, built into the corner of a manufacturing building. The office was empty. A half typed letter was in the typewriter. The telephone was ringing. After a few moments, I stepped out into the plant and found Mr. Brown in his business suit, covered with a large apron, working at one of his power machines. Like so many of his contemporaries, he had a delivery date to meet and as he saw it, the only way it could be met was to join the boys in the plant and help turn out the product.

More recently, I visited Mr. Green in his modern hardware store in a Virginia community. As I entered, he was in the sales floor, selling an aluminum stew pan. After the sale was completed, we stood over in the corner and discussed our business. During the conversation, it came out that he used to have a desk and chair on the balcony but the space was needed for storage. At that time, he moved his records and files home, where he did his office work. Besides, he was needed on the sales floor to take care of the customers who looked to him for advice and help.

Mr. Brown and Mr. Green are real people. They own their own business. They administer and operate two small businesses. To say that they administer them would be substantially incorrect.

The distinction between administration and operation is important. If for no other reason, it is important because it emphasizes the fact that many owners of smaller businesses are so busy operating that they have no time to administer. "Operation" means keeping the doors open, buying raw materials and selling the finished product, raising money, meeting payrolls, producing and shipping goods. Every business operates or closes its doors figuratively or literally. "Administration" means planning for more than a day or week at a time; programming the operations to the advantage of the business as a whole; controlling effectively materials, manpower, and money. One of the most serious weaknesses of smaller businesses is that administration is limited or almost altogether lacking. Management must be occupied with more than day-to-day operations.

Recently, a group of owners of small businesses were asked to state their most important, current problem. Here are their administrative problems:

1. Forced to make too many crisis decisions
2. Need more knowledge of all phases of management
3. Over-emphasis of what the owner knows best
4. Too little time for planning
5. Insufficient long-range planning
6. Inability to determine desirable size
7. Inadequate cost control
8. Unwillingness to share ownership
9. Inability to meet changing business conditions
10. Lack of knowledge of where to go for help

They cited other problems also, but these relate especially to administration. Let's discuss each of these problems and point out various solutions

WILFORD L. WHITE

Through combined government and university work, Dr. Wilford White has made a career of advising and assisting business. He has taught at the University of Colorado, Harvard Graduate School of Business, and the University of Texas, and worked for the Federal Trade Commission, the Department of Commerce, and the Small Business Administration. He is past President of the American Marketing Association and a member of the American Economic Association and the S.A.M.

which have been found successful.

TOO MANY CRISIS DECISIONS

I do not need to explain or emphasize the point that many businessmen are forced to live in at atmosphere of Crisis. Everyone is already aware of this, particularly as it applies to his own business. The payroll has to be met Friday. The order has to be shipped on the twelfth. A machine breaks down. New business is offered at cut price. The plant foreman announces he is going to quit. In each case, the problem has to be solved right now! More important problems have to wait. More fundamental and long range planning has to be set aside. And yet, without the long range planning, the number of crises may increase.

What can you do? Well, one man decided that he would set aside one afternoon a week for administrative problems of his small manufacturing business. And to assure himself that he would not be interrupted, he rented a hotel room in his own city and spent that afternoon each week with his heels up on the writing desk, projecting his thoughts ahead, thinking through the administrative problems he never had time for when in his own busy office.

Another producer decided to think about his plans, programs, and organization problems while driving to and from work each day. If you can afford an assistant or a part-time assistant, you can throw ideas to him and he will bring you back plans.

Another man each year takes a problem to a class in business administration at a nearby university. He follows through by reading the proposed solution of every student in the class. He has picked up many new ideas which he has adapted to his own business.

Another chap takes a long lunch hour once a week and spends the time in the local public library where he reads appropriate business and trade magazines. He finds many ideas in them relating to operations as well as administration.

It is certainly true that as you spend more and more of your time on administrative matters, the crises—which all of us will always have before us—begin to fit into the plans and programs, and a sound decision is easier to make, even if there still is little time in which to think about it before the decision has to be reached.

Most of you probably started out as salesmen, or on the bench or lathe, or in the office of a business owned by some one else. By the time you became your own boss, you were probably a good salesman, or an expert with the tools of your trade or you had a sound background in accounting or finance.

But once you headed a business of your own, you had to know all these different functions as well as many others, such as public relations, human relations, taxation, business law, technical and even commercial research.

Of course, you can take on a partner whose experience complements yours, and that may not be a bad idea under the right circumstances. You can hire one or more men whose background supplements your own experience. And you can train men who are working for you in related or other capacities, to take on added responsibilities for the performance of functions about which you know all too little.

But there are two problems here. First, it may be hard for a new owner or manager to realize that he only knows a fraction of what he should know about selling or production or finance or research or whatever the subject may be. Second, how can he learn more?

Recognition of the first problem is the key to the solution of the second. Subordinates will help if given the nod. Exchange of ideas will prove quite stimulating. The trade press is a wonderful source of help. Representatives of firms which service your business often have invaluable information which is available to you. Other sources will suggest themselves, too. But you must recognize your need for diverse knowledge and take the first step yourself, to meet the need.

CAUGHT IN ONE GROOVE

This leads right into the next problem, over-emphasis of what the owner knows best. It is just human nature to want to do what you know best how to do or what you like best to do. This is so natural that we often overlook it entirely. Therefore, I wonder if you spend more time doing your favorite job than you should? Do you find yourself less willing to delegate authority within the department from which you came than in any other? Even if you delegate authority here, have you checked recently to see if you have allowed your subordinate in your old department to make his own mistakes? You know, it is one thing to delegate authority and another to delegate responsiblity with it. A president who runs his own production or sales or finance department rather than let his department head run it, is often the man who has no time for administration.

I suggest that, during the coming five business days, whenever you find yourself enjoying a job you are doing or are about to do, you ask yourself whether you are doing the work which some one else in your plant is supposed to be doing.

INSUFFICIENT PLANNING TIME

If you are spending any of your time doing the work of others, or doing over their badly done work, you don't have enough time to do your own. By its very nature, the owner or general manager of any business—small or large—has the biggest, most important and most time-consuming job in the business.

He is the boss, the leader, the planner, the chief administrator, and to the extent that he does not do his own job, there is just not anyone else to do it for him. This means that if he does not plan, there are no plans. There are only

CHAPTER PERFORMANCE AWARDS REPORT

For Period of July 1, 1955 to March 31, 1956

Hudson Valley	8599	Lehigh Valley	4776
Knoxville	7690	Alabama	4695
Providence	7528	Clearing	4651
Western No. C.	7060	Baltimore	4427
Lancaster	7022	Dallas	4312
Philadelphia	6567	Worcester	4081
Wilmington	6483	Richmond	4012
Greensboro	6388	Madison	4009
Washington	6367	Montreal	3919
Cleveland	6260	Saint Louis	3724
New Haven	6108	New Orleans	3693
Chicago	6090	Portland	3505
Indianapolis	6030	New York	2922
Bridgeport	5980	Georgia	2468
Sacramento	5844	Central Pa.	2217
Tren.-Del. Val.	5812	San Francisco	2198
Milwaukee	5770	Detroit	1603
Raritan Valley	5684	Western Mass.	1538
Northern N. J.	5629	Central N. Y.	1512
Twin City	5562	Athens	454
Boston	5542	Calumet	
Nashville	5494	Charlotte	
Pittsburgh	5469	Cincinnati	
Binghamton	5331	Dayton	
Greenville	5236	Fox Valley	
Reading	5208	Long Island	
Kansas City	5035	Northern Ala.	
Northeast. Pa.	5030	Puerto Rico	
Columbus	4982	Hartford	
Los Angeles	4903		

crises. The owner who tries to hold all the reins in his own hands, to make all the decisions, leaves no time for planning.

Recently I talked with a man who had been in the oil well equipment business in Oklahoma. Sales dropped off and he closed out his small manufacturing business. Why? Diesel engines replaced steam engines. Methods of drilling changed. Functional characteristics of the rigs changed. But this manufacturer kept producing the same products for which there was less and less demand. Did he need some time for planning? From your experience, you can add examples of your own.

POOR LONG-RANGE PLANNING

Could you have anticipated five years ago, the big problem—the crisis—which has you down for the count of nine today? Turning to the field of retailing for an example, some years ago a study was made in Austin, Texas. A student in the University of Texas investigated the failures in the retail grocery business in Austin over several years.

He found the names of retail grocers who had closed up their stores, hunted up as many as he could, and asked them —among other questions—why they closed. Their answers went something like this: My customers left me. The bank would not lend me $10,000 when I needed it. A big chain store opened up across the street.

After he had talked to the retail grocers, this investigator then sought out the wholesale grocers who had sold to these retailers and asked them the same question about each retailer. Do you think their answers were like those of the dealers? Certainly not. They ran more like this: His customers moved further into the suburbs but he remained at his old location. His bank would not lend him $10,000 because he had an unwieldy inventory, much of which was not salable. Yes, that new chain store did take a lot of business away from him, but with all that competition, he still refused to modernize his store. In fact, he was so busy worrying about his competition that he couldn't even keep it clean.

If these retail grocers of 50 years ago had taken a little time—just a little —to do some long-range planning, they might be in business today, or better, their sons might be running these same businesses.

Not all succesful businesses are large. And not all successful small businesses grow to be large. There are undoubtedly many reasons for this fact. Not every owner wishes to build a large business. Not every business has the market on which to grow large. Nor does every business have the financial wherewithal to grow large. Now if these and related elements are combined, one can rightly conclude that it would be unwise in most instances to try to push the dollar sales of a particular company much beyond the figure which would produce the maximum profit.

We can determine our markets. We can find out how much money is available to us for expansion purposes. But it is not so easy to determine at what point or size the owner is making the best use of his own management ability. A well-managed million dollar business may be badly managed by the time sales are forced up to two millions. I learned of one company—a large one too—which increased its share of the market from 21 to 25 per cent in one year, but in doing so, went from a black-profit figure to a red-loss figure. The best you could say about its management was that it erred in judgment.

It is a rare manager—just as it is a rare man in any kind of work—who knows his own limitations and either sets out to remove them or decides how best he can work with them. But this should be done for any small business.

INADEQUATE COST CONTROL

Several of the small business owners gave inadequate cost control as their main current problem. As markets become more competitive as the larger, and an increasing number of the smaller, producers know their costs more exactly, the remaining producers have greater difficulty in pricing their products profitably. It has come to my attention that a few of the many small producers who sell to the Federal Government get into trouble because they do not know how to figure their costs properly when they are preparing their bids.

Now and then you hear about that chap who didn't even bother about his overhead. His theory was that if he kept his selling price down to direct costs, he would sell so many items that his overhead would be covered and a nice profit result. And there was the actual case of a young man who inherited a small manufacturing business who became impatient when it did not grow larger. He kept on increasing his trade discounts in search of greater volume until he was no longer the owner of the business. One of the commandments for all businesses is, "Thou shalt know thy costs."

SHARING OWNERSHIP?

Unwillingness to share ownership is an unusual problem for the owner of a small business to cite. But it is a very important problem in many cases. The inventor of a new product who is now manufacturing it, does not wish to share with another his business and the eventual profits he hopes to earn. A salesman who has planned to set up his own business and finally does so, only to find it rough going, is inclined to feel that if he could find a lending institution which would tide him over, everything would be all right.

But all too often the only way of securing additional equity capital may be to take in a partner. Or possibly the only way a good salesman can complement his experience with that of a trained production man is to take one in as his partner or corporate equal. It is a hard decision to make and unless the owner is a good judge of men, many problems may arise, including that of losing the business to the new partner.

Inability to meet changing business conditions is a tough problem. Most of us know from experience there is no more constant element in business than change. If it were not for change, we could make a good product and then rest while the plant turned it out and the sales department sold it, year in and year out. Of course, all of our competitors would be doing the same thing, but change takes place in products themselves. Coal-burning engines are rapidly giving way to diesel engines. They in turn will lose some of their passenger business to jet-propelled airliners in the years ahead, and have already lost some of their freight to diesel trucks.

Today clothing is made out of various combinations of coal, water, milk, air, and glass In addition to cotton, wool, linen, and silk. Stop and think for a moment of the rise of stainless steel, aluminum, and the rarer metals.

But if change were limited to changes in products, adjustment would be fairly simple. Change is the dominant element of markets too.

The total number of people in the United States has doubled since 1900. We have a new and growing group of customers over the age of 65. We have many families who need and can pay for all kinds of new services and products because of the number of leisure hours at their disposal. And they tell us we are on the verge of even greater technological changes.

Unless a businessman forces himself at frequent intervals to get away from the day-to-day operations of his business he will not see what changes are coming in his own industry and cannot prepare himself to anticipate them or even to meet them when they arrive.

Many a businessman has so many decisions to make and so little time in which to form them that he has to make snap judgments without time to turn to other people or sources for help. The owner of a small business will always have to make snap judgments, and he doesn't have to be right all the time to win. But he does need to know where he can turn for help.

While you may be familiar with many of these sources, here they are in review:

1. Representatives of your suppliers
2. Your customers
3. Your own personnel
4. Bankers
5. Trade associations
6. Professional groups
7. Public libraries
8. Educational institutions
   a. Consulting
   b. Technical research
   c. Commercial research
   d. Administrative management courses
9. Federal, state and local governments

IMPORTANCE OF THE BOSS

If your business policies are not clear, if your officials seem confused, if morale in your business appears to be low, if your customers are turning to more up-to-date products and your sources of supply are not quite so eager to supply you, it may be in part a reflection of your own failure to plan carefully, organize clearly, and control wisely. You are the most important member of your management team. You have the right to take the lion's share of the responsibility for its success. At the same time, you should take the major share of the responsibility for its administration. ■

Industrial Engineers as Production Executives

Up to the present time most production supervisors have been drawn directly from the ranks of the production workers. However, times are changing rapidly. Less and less does the man in the shop make decisions as to the type of material he will use, how he will process it, what tooling he will employ, to what fits and tolerance he will work, and the like. Most of these decisions have been given to the engineer.

Likewise, many production supervisors and executives have been developed from the European craftsmen who migrated to this country in large numbers some years ago. This source has ceased to exist and thousands of these men are now approaching retirement age.

Where can personnel be found to fill this rapidly developing critical need for trained production supervisors and executives? It might seem that the Business Administration graduate can fill this need and, to a very limited extent, some have done so. However, production supervision becomes increasingly complex and involves many intricate technical problems and decisions that can best be solved by those with a technical training, i.e., the engineer.

Forward-looking companies are making it a policy to groom only engineering graduates for plant administrative positions and the larger companies are setting up very extensive supplemental training programs to try and alleviate this very serious situation which they see developing. On the other hand, most companies will probably turn to our educational institutions to fill the need and it appears that those institutions will be ill-prepared to do so, unless some major changes are made.

Most programs in engineering are so involved with technical instruction that there is little or no time for training in the essentials of management. Ironically, but understandably, engineering graduates have tended to consider production supervision positions as "blue collar jobs" and therefore to be beneath the status and dignity of an engineer. Consequently, most young engineers have tended to go into the usual staff engineering positions involving equipment design, research, or sales, while shunning jobs leading to plant engineering, maintenance, and production.

While most engineering programs provide little or no management training, Industrial Engineering is an exception. Not only is the Industrial Engineer given sound instruction in the fundamentals of engineering, but also in the technical areas generally associated with production supervision. To this is added a good measure of training in the fundamentals, methods, and techniques of effective industrial management. Up to the present time, the industrial engineer has been largely used for specialized staff activities such as methods improvement, setting of production standards, making plant layouts, controlling costs, and establishing incentive wage programs.

To my knowledge, it has not been made evident to industry that Industrial Engineering can do much more than provide specialists; it can provide the technically trained potential production executive. When this fact is more widely realized, the demand for industrial engineers will far exceed the supply. Industrial Engineering will take on new and greater stature because it is most suited to fulfilling the growing need for supervisors and executives.

Perhaps I should preclude a possible misconstruing of my remarks and point out that engineering is a combining of knowledge and experience. The recent engineering graduate is long on knowledge and short on experience. Therefore, until such experience is gained as can be satisfactorily combined with an engineering training, the graduate engineer will usually not be qualified to make engineering or administrative decisions.

This means that Industrial Engineers should not be expected to fulfill supervisory requirements until they have gained appropriate experience, generally in the particular plant and with the specific processes and materials over which they will have authority. ■

By Edward L. Page
Dept. of Industrial Engineering
University of Michigan

Many companies are profiting through more extensive use of scientific marketing methods. The effects of this trend on small business and the attitudes of the small businessman toward marketing research are discussed. Cases where small businesses have profited or lost because of such attitudes are cited, as well as many of the internal and external sources of the information needed by small companies in solving various types of marketing problems.

Marketing—Last Frontier Of Scientific Management

By Charles W. Smith
Associate
McKinsey & Company
New York City

SCIENTIFIC management is currently making substantial progress in opening up its last major frontier in American industry—the field of marketing. In simple terms, scientific management in marketing means the application of facts developed through organized research to improve the planning, organization, direction and control of activities involved in moving goods from factory to ultimate consumer.

A large and growing group of marketing executives believe that success in marketing depends not so much on the creative skills of its practitioners as it does on the quality of the management provided by the top marketing executive. These executives strongly advocate the bringing together of advertising and sales under a common head to achieve more effective coordination and closer integration with other company operations.

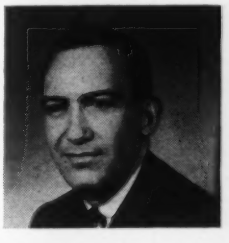
However, the majority of sales and advertising executives still are extremely skeptical about the contributions that scientific management can make in their field. This group holds to the traditional position that marketing is an art whose successful practice depends on the creative skill of the practitioner. Partly because of the prevalence of such opinions, there are still many companies—both large and small—that have not made very extensive use of scientific marketing methods to date.

A great many companies, for example, have never measured the market potential for their products. Still more companies have yet to establish workload standards for their salesmen or to develop a sound method of incentive compensation for salesmen. When we look at the amount being spent by industry for marketing research, compared with the sums spent for other types of business research, we can only conclude that executive interest in using scientific methods in the field of marketing is still relatively limited in a majority of companies.

As in most controversies, the truth probably lies somewhere between the positions maintained by the advocates of marketing as an art and marketing as a science. But the fact that there is a controversy indicates that scientific management has finally had an impact on its last industrial frontier.

The reasons for the failure of scientific management methods to take hold in the field of marketing are not easy to document. One factor has undoubtedly been the relative complexity and geographical dispersion of marketing activities. Another has been the difficulty of measuring the many intangibles connected with the marketing process such as consumer motivations, dealer attitudes and seasonal and regional differences in market conditions.

The fact is that in terms of time, industry has been relatively slow to apply the techniques of scientific management to marketing problems in comparison with other branches of management. In the field of production, Taylor and Gilbreth pioneered the use of scientific management methods at the begin-



CHARLES W. SMITH

A consultant in marketing since 1944 with McKinsey & Company, Charles Smith has had firsthand contact with the selling and distribution operations of scores of American companies, from the largest to the smallest. He has written and spoken extensively on the magnitude of the distribution job ahead, and industry's need for planning and organization to meet the challenge it offers. His booklet, "Making Your Sales Figures Talk," was published in 1953 by the U. S. Small Business Administration. He is President of the American Marketing Association, and is also a member of the Sales Executives Club of New York and the American Statistical Association.

ning of the present century. McKinsey introduced scientific methods to the field of accounting prior to 1920. Executives in personnel relations have long made use of scientific testing and training techniques. Marketing research, the earliest form of application of scientific methodology in the field of marketing, was not initiated until the late 20's and early 30's and was then used by only a small number of leading companies.

But the past twenty years have seen much encouraging progress. Techniques for planning and controlling marketing operations have been developed and applied by more and more enterprises until today even the smallest companies are using research to set volume goals, determine marketing policies, locate plants and warehouses, and evaluate the performance of their sales personnel. Thus, the use of scientific marketing methods seems to be sharply accelerating. Witness the creation in company after company of brand new marketing departments; also the continued growth of organizations specializing in the field of marketing research. Educational institutions are placing increasing emphasis on marketing subjects in their curricula.

An important question raised by this trend toward greater use of scientific management in marketing is the effect that it will have on the fortunes of small businessmen. Will the use of scientific marketing methods be confined to larger companies that can afford to separate the planning and execution functions in the interest of achieving greater selling and advertising efficiency? Or can the small businessman make as effective use of scientific methods in marketing as he has in other fields of management? The answer to this question seems to depend on how he adapts to his particular requirements the methods that large companies use to develop factual bases for resolving their marketing problems.

GETTING THE FACTS FIRST

What does this require of the small businessman? First, a knowledge of existing marketing research methods. Second, an attitude based on the concept so ably expressed by the marketing executive of one large company, "Get the facts first; then the answer is easy."

The small businessman has a major problem of knowing what research techniques can help him resolve his marketing problems.

For one thing, he is so busy with the multitude of day-to-day problems involved in running a business that he has little time to devote to study of subjects not within the sphere of his immediate interest. Typically, the small businessman is not inclined to be a student. He is a man of action.

DEFICIENCY BEING ATTACKED

For another, the sources of information about marketing research methods are not readily available to the small businessman. This deficiency is being attacked vigorously by the U. S. Small Business Administration through its "how-to-do-it" publications. And many case examples of successful research are being publicized regularly by the trade magazines read by small businessmen.

Difficult or easy as it may be to acquire knowledge about marketing research methods, it is up to the small businessman to find out for himself how he can use marketing research in his business. Once he has this basic understanding, he can begin to develop ways of applying such methods. In some cases, he may wish to use outside services. But in others, he will find that he can make profitable use of such methods only by doing the work within his own organization. Granted, the results may not always be as professional as those produced by an outside organization; they will still be extremely useful in reaching decisions that otherwise would have to be made solely on the basis of hunches or unsupported judgments.

The attitude of the small businessman toward marketing research, however, is more important than his knowledge of marketing research methods.

Marketing research can take many forms ranging from extremely elaborate projects comparable to the pure research conducted in engineering laboratories to relatively simple fact finding based on the analysis of existing internal sales records. Obviously the small businessman is in no position to afford the cost of elaborate marketing research studies. However, many types of marketing research are well within the means of small companies. The reason they are not more widely applied is simply that many small businessmen have yet to form the mental habit of asking themselves the question "Do I have the facts I need to make this decision wisely?" As a result, they often fail to recognize inherent problems in a situation that fuller consideration of basic facts would disclose.

One company in the textile industry, for example, made a number of unwise marketing decisions over a period of fifteen years which eventually undermined the company's profit position. This occurred because management did not recognize the significance of certain long-term developments in their industry. These factors could have been identified rather quickly if management had only asked the questions that would have brought underlying industry trends into sharp focus. Instead, decisions were based solely on short-term developments that seemed to offer opportunities for increasing profits.

Good judgment is necessary, of course, not only to interpret marketing facts, but to determine when they are needed. Since marketing research takes time and costs money, the benefits to be gained by its use must always be weighed carefully. What many executives sometimes fail to weigh carefully enough, however, are the potential costs that can be incurred as a result of acting without facts.

One small cosmetics company, for example, has failed to capitalize on two or three important new-product developments that it has introduced to the market. In each case, the products gained immediate trade and consumer acceptance. The failure to achieve a strong competitive position has been due in each instance to the company's failure to realize the necessity of pretesting the new products prior to their market introduction. As a result of this failure to make use of marketing research, product deficiencies were discovered only after the products were commercially introduced. By the time deficiencies were corrected, major competitors had developed and introduced successful adaptations of the basic idea and had captured the lion's share of the potential new markets.

GROWING UNEXPECTEDLY

Many small businesses remain small because their owners do not realize the true sales potentials in their fields. One small company recently found, for example, that it had exceeded its five-year sales forecast within a two-year period. On investigation, the unexpected growth was found to be the result of sales to new customers not previously sold. This prompted management to make a study of the potential market for the

company's product in an area where their sales had always been low. The study disclosed the need for additional sales effort to develop existing volume potential. The attitude of the company's management in seeking new facts about marketing operations is paying off handsomely in increased volume and profits.

Another small company recently faced the problem of deciding whether to undertake an expansion program. The decision required knowledge of the size and character of the markets for the company's products. Management decided to get the facts. A survey of the market disclosed that the company had a small share of its industry volume; that its products were regarded very highly in the trade; and that the long-term outlook for increased industry volume was excellent. These facts prompted management to authorize an expansion program involving a reorganization of the company's headquarters staff, the addition of new production facilities, and the realignment of sales territories to provide more thorough coverage of all potential customers in the areas served by the plant.

It is beyond the scope of this article to enumerate the many sources of the marketing facts the small businessmen needs. But the following excerpts from a previous publication* of the author may give an idea of the *kinds* of places he is most likely to find the information he needs for help on various types of marketing problems.

INTERNAL DATA SOURCES

The most reliable sources of information about any company's distribution operations are its internal records.

1. *Orders received.* The number of incoming customer orders that must be handled and the volume represented by such orders provide basic data in distribution analysis. Clerical order-handling costs, and warehousing and shipping costs are affected by the number and size of orders. The timing of orders also affects the amount of investment in inventories and the size and location of warehouses.

2. *Sales billed.* The volume of shipments to customers or trade outlets is normally used as a basis for computing sales commissions. Sales invoices pro-

*"Making Your Sales Figures Talk," *Small Business Management Series No. 8, 1953. Superintendent of Documents, Washington 25, D. C.*, $.25.

S.A.M. Research Publications . . .

A Survey of

TIME STUDY POLICY AND PRACTICE

in the U. S. and Canada

A quantitative analysis of:

- **297 Plants**
- **180 Companies**
- **17 Industry Classifications**

1. The assigned duties of Time Study men.
2. The extent of usage of standard data, whole-cycle time, and various motion-time systems in standards setting.
3. The extent of union participation in Time Study.
4. Techniques of training Time Study men.
5. Criteria used in evaluating Time Study men for proficiency.

This is a report issued January 1955 by the SAM National Research Committee on The Project, Aptitude and Proficiency Tests for Time Study Personnel.

Price $1.50 per copy — Limited Quantity Available

COLLECTIVE AGREEMENTS ON TIME AND MOTION STUDY

by G. Jay Anyon, Ph. D.

Simplify negotiations with this handbook designed to aid labor relations heads, union officials, legal counsel, production managers, industrial engineers, foremen and labor relations scholars. More than 300 separate types of stipulations throughout a broad sampling of American industry are examined.

SAM Members: $3.50 — Non-Members: $4.50

CREATIVE TIME STUDY AND METHODS

A collection of 21 articles concerned with the latest developments in the Industrial Engineering field, compiled from papers presented at the 1954 SAM-ASME Time Study and Methods Conference.

SAM or ASME Members: $3.50 — Non-Members: $5.00

A FAIR DAY'S WORK

- *Rating Judgments on 24 Typical Operations in Manufacturing*

This study represents the most comprehensive research ever undertaken in the field of performance rating. Its findings clarify for management the concept, "a fair day's work", and provide an authentic framework in which to apply that concept to all types of manual labor, clerical and non-clerical.

SAM Members: $7.50 — Non-Members: $10.00

Order from:

THE SOCIETY FOR ADVANCEMENT OF MANAGEMENT

74 Fifth Avenue, New York 11, N. Y.

vide a basis for analyzing the source of sales volume by class of trade.

3. *Customer sales records.* Many companies keep summary records of sales made to individual customers or trade outlets. These records, which are often kept by district or branch offices, or by company salesmen, are useful in finding out the number, volume size, and types of customers or trade outlets served.

4. *Salesmen's call reports.* Some companies require their sales representatives to turn in reports on their daily calls. These call reports include many important types of information useful in distribution analysis. They can be used, for example, to measure such factors as the ratio of orders to total calls, the number of calls by type and size of account, and the number of accounts handling competitive products.

5. *Inquiries, complaints and service reports, returned goods reports.* A number of special sources of information (such as those listed above) often provide valuable check points on distribution efficiency. They can therefore be helpful in distribution analysis. Many of these sources of information are often not fully utilized in smaller companies, even when such knowledge can help to raise the quality of service above that provided by large competitors.

6. *Production reports.* In some cases, the only records of company volume by type of product are company production reports. Such records are helpful in determining the volume of products that must be handled by the distribution system. They may also be useful in determining product gross profit margins, and in estimating transportation costs, particularly when analyzing inbound-freight costs to determine the most advantageous site for a new plant.

7. *Company financial reports.* The profit and loss statement and other reports summarizing company operations by function are often useful in determining over-all costs of distribution. The basic records from which such reports are prepared can often be tapped for special reports in analyzing distribution activities and costs.

EXTERNAL DATA SOURCES

Valuable as internal data are in analyzing distribution operations, their true significance can often be seen only by comparison with outside data.

1. *Bureau of the Census reports.* Issued periodically by the Bureau of the Census, they provide statistics on population, housing, retail trade, wholesale trade, manufacturers, construction, and service establishments. They furnish a factual basis for estimating sales potentials on specific products, by class of trade and by location, in terms of counties and cities. They also give an indication of the number of trade outlets and their geographic distribution.

2. *Trade association reports.* In many industries, trade associations perform the service of collecting and summarizing certain information on sales made by member businesses. The degree of detail in which these statistics are prepared varies greatly from industry to industry. In many cases there is also a problem of obtaining complete and accurate reports from all companies. However, in whatever form such figures are available, they provide a source of valuable information for the distribution analyst.

DISTRIBUTION ANALYSIS

3. *Trade publication data.* One of the important services provided by many trade publications is the compilation and publication of sales volume information and other data of value in distribution analysis. For example, one of the leading magazines serving the electrical appliance field has published for years an annual estimate of saturation of the various major appliances by states. A publication serving the variety chain store field publishes information periodically on the number of chain store units by geographical location. Another periodical issues yearly estimates of retail sales by counties and states and major cities. A publisher serving the industrial goods field maintains an extensive directory of industrial distributors and a private census of manufacturing establishments.

For a list of publications in any field, reference should be made to the Business Paper Section of the Standard Rate and Data Service or the annual Market Data and Directory Number of Industrial Marketing Magazine.

4. *Mailing list companies, credit reporting services.* The basic services rendered by mailing list companies and credit reporting services are quite different, but both represent good sources of information on the names and locations of specific retail and wholesale outlets and users of industrial products. When summary statistics are not available to show the distribution of potential outlets or users, it is often possible to develop such data through the purchase and tabulation of lists. Such lists are also helpful in interpreting the findings of an analysis of distribution coverage, particularly in identifying specific outlets that represent an opportunity to expand a company's distribution.

5. *Marketing research companies universities.* In the course of their normal activities, marketing research companies and universities develop many types of information that can be of help in distribution analysis. These data are often published in the form of articles or theses that are available to anyone who has an interest in the facts they contain. While such information is often fragmentary, it nevertheless can provide the analyst with valuable background for the study of specific distribution problems. Reports and theses are often difficult to find, for the simple reason that they usually receive only limited distribution when they are published. But the manufacturer who is aware that such reports do exist can often track them down by inquiring about their availability when talking with informed persons during the early fact-gathering stage of each distribution research project. Such persons include bankers, leading suppliers, trade association executives, librarians, trade publication editors, teachers in university schools of business, and the field office staffs of the U. S. Small Business Administration and the U. S. Department of Commerce.

What then is the outlook for increased use of scientific marketing methods by small business?

OPPORTUNITIES REVEALED

The answer seems to depend on two factors. First, the extent of recognition by small businessmen that important volume and profit opportunities can be disclosed through the use of marketing research techniques. Second, the adoption by the small businessmen of a fact-first philosophy in making marketing decisions.

Not all small businessmen can be expected to meet these two criteria. However, the record indicates that as scientific management continues to push against the marketing frontier, more and more of them will find it easier and more profitable to use scientific marketing methods in the running of their businesses.

Reprints in Stock

ADVANCED MANAGEMENT ARTICLES

	Quantity
Accurate Forecasting—Simple Tools Make it Easy—*by H. Wolfe*	.....
Accurate Inventory Measurement—*by R. L. VanDeMark*	.....
An Appraisal of Personnel Testing—*by Doncaster G. Humm*	.....
Are You Thinking About Management Development—*by Gilbert C. Jacobus*	.....
Are We Asking the Foreman to Be Better Than His Supervisor—*by U. Rosenfield*	.....
Automation Dictionary—*by C. L. Peterson*	.....
Better Eyes for the Job—*by James R. Gregg*	.....
Blueprint for a Plant Health Program—*by W. E. Park*	.....
Break-even Analysis & Measurement of Capital Productivity—*by Joel Dean*	.....
Budget Navigation by Dead Reckoning—*by A. Hartogensis*	.....
Business Leadership in the Decade Ahead—*by Ordway Tead*	.....
Centralization versus Decentralization—*by Ernest Dale*	.....
Climate for Growth—*by H. H. Carey*	.....
Do Industrial Engineers Neew Executive Development?—*by Harold Smiddy*	.....
Economic Forecasting—*by Henry Bund*	.....
Empathy: Management's Greatest Need—*by R. N. McMurry*	.....
Engineering the Invisible—*by H. H. Carey*	.....
Executive Development in the Foreign Service—*by James F. Grady*	.....
Executive Development Thru Colleges—*by Beach, Planty and VanArk*	.....
Executive Personnel Development—*by J. C. Worthy*	.....
Executives: Their Personality & Its Appraisal—*by B.B. Gardner*	.....
Feedback to Employees (V): What Business Can Learn From Baseball—*by Theodore R. Wolf*	.....
Financial Incentives: The Flywheel of Management, Planning—*by Phil Carroll*	.....
Foreman and Middle Management—*Anonymous*	.....
Foreman's Union: How Soon?—*Anonymous*	.....
Fundamentals of Getting Work Done Thru Others—*by F. Rudge*	.....
Getting Effective Leadership in Industrial Organizations—*by D. McGregor*	.....
Good Management Men Delegate Authority—*by J. Gorsuch*	.....
Great American Manhunt—*by G. Price*	.....
The Homemaker—Executive-at-Large—*by Catherine B. Morhard & William C. Morhard*	.....
How Effective Are Your Company Communications?—*by Harold P. Zelko*	.....
How Should Labor Participate in Gains—*by J. W. Nickerson*	.....
How to Chair a Conference—*by T. H. Nelson*	.....
Human Factors in Industrial Design—*by J. Dunlap*	.....
Human Relations in Industry—*by D. McGregor*	.....
Importance of Being Important Together—*by C. Wimpfheimer*	.....
Incentive Compensation Develops Executives—*by A. Patton*	.....
Industrial Use of Personality Tests—*by W. S. Henry*	.....
Industry's Stake in Public Relations—*by L. Kurtz*	.....
Inventory Control—*by R. Goldberger & E. Kessler*	.....
Judging the Effectiveness of Organization—*by A. Brown*	.....
Keeping Up With Business Cycles—*by G. H. Moore*	.....
Keynote for Management Industry Partnership—*by T. Carroll*	.....
Labor Trends—*by C. Ching*	.....
Labor Looks at Industrial Engineering—*by D. Lasser*	.....
Labor's Wage Policy in Transitional Controlled Price Economy—*by S. Barkin*	.....
Maintenance Management—*by G. Keck*	.....
Make it Informative—*by P. Beall*	.....
Management Policy—*by J. Glover*	.....
The Management Profession—*by Crawford H. Grenwalt*	.....
Management Viewed by an Engineer—*by R. W. Johnson*	.....
Measurement of Management—*by Phil Carroll*	.....
Method Analysis by Motion Pictures—*by Wogler & Dubois*	.....
Mirrors Extend Scope of Camera—*by C. A. Anderson*	.....
Money as an Industrial Cure-all—*by King McRury*	.....
New Emphasis in Cost Reduction by *A. MacCullough*	.....
New Focus in Executive Training—*by I. R. Weschler, M. A. Klemes & C. Shepherd*	.....
New Frontiers for Industrial Engineer—*by H. L. Wylie*	.....
New Time Study Tool—*by D. Jones*	.....
Non-Financial Incentives: A Management Motivation Analysis—*by Eugene J. Benge*	.....
Operational Techniques of Creative Thinking—*by Charles S. Whitting*	.....
Our Living Standards Can Go Up—*by P. D. Foote*	.....
Performance Budgeting in Government—*by C. S. Hudson*	.....
Personalities in Labor Management Conflicts—*by A. Imberman*	.....
Planning the Strategy of the Business—*by E. W. Reilley*	.....
Problems Existing in ILO—*by W. L. McGrath*	.....
Procedures in Industry & Business—*by M. Albery*	.....
Product Research & Development—*by R. Spillman*	.....
Professional Societies—Tool for Executive Development—*by T. Linville*	.....
Program for Motivating Salesmen—*by W. Bryan*	.....
Resistance to Change: Its Analysis and Prevention—*by A. Zander*	.....
Scientific Management Abroad—*by H. Maynard*	.....
Scientific Management Enters Civic Affairs—*by George M. Goettelman*	.....
Scientific Management in Hospital Administration—*by V. Donald Schoeller and G. Jay Anyon*	.....
Semantics: The Foundation of all Business Communication—*by Martin Maloney*	.....
Should You Replan and Reorganize *Now?*—*by Gordon VanArk*	.....
Size and Effectiveness—*by H. K. Hyde*	.....
Small Business Compensation & Incentive Plans—*by V. H. Rothchild*	.....
Span of Control—Fact or Fable?—*by W. W. Suojanen*	.....
Special Report on Test Analysis of Group of Time Study Men—*by C. Thomas*	.....
Standard Data—*by Phil Carroll*	.....
Steps Toward Economic Understanding—*by J. Burger*	.....
Strengthening Small Business Management—*by L. T. White*	.....
Teaching Total Management Function Thru Job Rotation—*by H. V. Olsen*	.....
Transition in Corporate Controls—*by J. M. Juran*	.....
Wartime Lessons in Wage Administration—*by C. Balderston*	.....
What Does the Foreman Actually Do?—*by J. C. Gilland*	.....
What Makes Successful and Unsuccessful Executives?—*by B. Gardner*	.....
Who Dares to Sit and Read?—*by Louis J. Cantoni*	.....
You Know—But Do They?—*by Walter E. Brunauer*	.....

Note: The quantity of each reprint in stock varies. The above listings are available at 25c while in stock. However, when a reprint is out of stock the minimum order is 50c.

ORDER FORM

Please send me the reprints marked above, at $.25 per copy.

NAME .....

ADDRESS .....

.....

Check enclosed .....

*Please Bill Me .....

*(minimum billing $1.00)

Send order to: **Society for Advancement of Management** **74 Fifth Avenue, New York 11, N. Y.**

New Management Writing . . .

HOW TO ORGANIZE AND OPERATE A SMALL BUSINESS

By Pearce C. Kelly and Kenneth Lawyer, 713 pages, Prentice-Hall, Inc., New York, Second Edition, 1955. Price: $9.25.

SINCE the publication of the first edition in 1949, this substantial volume on small business has contributed to the slowly growing study of small business management. The new edition continues to illustrate the capacity of the authors to search out many sources of material on the subject, (they have added six new chapters) and to collate the material and present it in a manner attractive to a wide variety of readers. Any writer, however, who attempts to combine the qualities of a text, a reference book, and a handbook finds himself in a dilemma at the outset.

If it is to be used as a text in an undergraduate course, it must be basic, presenting the economic justification of small business, answering primarily the question of "Why?" The authors have met this requirement in their first chapters of the book which include "Factors in Business Success," "Characteristics and Problems of Small Business," "Small Business Hazards—Fact or Fiction," and "Employment or Your Own Business."

Such a textbook must also provide a clear understanding of the management functions, how policies are formulated, and how a business can be operated successfully. These requirements are fulfilled in the volume, sometimes in great detail. Although there is some discussion of insurance and business risks in a chapter called "Small Business Protection," more attention might have been given to business risks and net profit, and how these two are related. A clear understanding of their interdependence might save many a business headache and prevent many a failure.

If it is to be used as a reference book, by people young in business management as well as by prospective businessmen and women, as the authors suggest in the preface, it would be most helpful to find a clearer distinction between administration and operations. Contact with many owners and managers of smaller firms suggests that all of them are operators, although most of them could do and would like to do a better job of operating their business. Such operation includes hiring employees, talking to the salesmen of suppliers, laying out an advertisement, and arranging for funds with which to meet the payroll. Many times, however, these same operators give little if any attention to administration with its organizing, planning, programming, and the controlling of machines, materials, products, processes and men. The authors could have stressed more the administrative aspects of small business management.

Third, if the book is to be used as a handbook, it must be full of "How" to conduct a business. Prepared primarily for the experienced businessman but not ignoring the less experienced, a good handbook must suggest answers to many anticipated problems. The authors have found practical material and have included it in their functional chapters such as "Financing and Organizing the Business," "Physical Plant and Layout," "Employee Relations,' "Sales Promotion," and "Credit and the Customer."

In an effort to reach a varying audience of manufacturers, retailers, wholesalers, and service operators the authors have had to switch from the general to the specific and back again, and by so doing have not always given adequate treatment to the subject at hand.

In spite of the problems which the authors have established for themselves, in appealing to all three groups of prospective readers, they have done a remarkable job of bringing together in one well organized volume, much usable information relating to the management of a small business.

By Wilford White, Chief
Managerial Assistance Division
U. S. Small Business Administration
Washington, D. C.

PERSONNEL MANAGEMENT IN SMALL PLANTS

By Alton W. Baker, Bureau of Business Research, College of Commerce and Administration, The Ohio State University, Columbus, Ohio, 1955, 288 pp. $4.00.

THIS book evolved from a study conducted at the Bureau of Business Research at The Ohio State University. Very detailed questionnaires covering some "thirty-one major personnel functions" were completed by 523 Ohio companies. These companies represented fifteen manufacturing industries and none employed more than 300 people.

The author states his purposes, "to discuss the principles of personnel management as they specifically apply to small business," to "provide empirical information which may assist in answering some of the questions of small businessmen about how many personnel activities a small plant can have and how the program can be organized, staffed, and administered. The final objective is to summarize the patterns found in personnel programs prevailing in small companies and to draw some conclusions regarding such programs." Worthwhile objectives, indeed.

It was disheartening to note, in view of these excellent objectives, that the foundation for the study (and the book) —the questionnaire—limited itself to nose counting. Among the many questions there is not one which asks, "How does it work?" "How satisfied are you with this?" "How do you feel about this?" "What is the title of the person who. . . .?" "How often do you . . .?" As one who is interested in the personnel function from the theoretical point of view of the researcher and the very practical one of consultant who must assist clients in finding the right answers, the reviewer could not help but wonder how the author could overcome the limitations of his raw data.

The first thing that strikes one is that the book's most valuable material (in the reviewer's opinion) is the very material which will discourage readership by its intended audience, the small businessman. Between pages 7 and 250 are 84 detailed tables presenting the survey results. Some of these tables have over 200 entries and occupy a full page. Much of the text on these over-200 pages refer to the tables. Among the small businessmen I have known, I can't think of one who wouldn't bog down very early in the game.

Assuming one had the tenacity to read the book fairly thoroughly, what would he gain from this diligence?

In the first place, he certainly would be able to find out what is being done in Ohio small companies in the way of personnel practices. There is unquestionably a wealth of such information. He may find there are many more aspects to personnel administration than he has considered. He may discover some personnel practices of which he has not availed himself. He may learn

about some new concepts or ideas he has never heard of, or may be stimulated to make a critical examination of the functioning of his own personnel organization or to find out some more about the value of certain personnel activities.

On the other hand, he will not find out *how* any of the companies studied feel about any of their programs, nor will he find out what kind of experiences these companies have had with respect to their personnel programs. Nor, unfortunately, will the author's contributions make up for the data.

In stating the findings, there is little differentiation between what might be considered significant findings and insignificant findings. (Typical of the latter: "Of the companies, . . . 434 or 83 percent reported that they used at least one external source of labor when hiring outside applicants.") The analysis of certain findings left this reviewer cold. For example, in explaining why the larger companies tend to have their personnel practices more often formally written than smaller companies, he says, "This relationship may be due to the greater need on the part of the larger companies to state these policies formally since much of the informality of the smaller firms is absent."

His general discussion on personnel functions and practices also often appears to be quite shallow. (Example: Employees that (sic) quit are a select group. There is, perhaps, some factor that they are sufficiently dissatisfied with to make them decide that work elsewhere would be preferable, etc.")

A sample check of some tables and author's comments on the tables, revealed several inaccuracies in data interpretation (or poor arithmetic). I can't say how many there are throughout the book.

In conclusion, the chief value of this book lies in its tables. It is a useful reference volume presenting information on personnel practices in a number of small companies in greater detail and scope than to my knowledge is available elsewhere. Unfortunately, in the reviewer's opinion, the small businessman interested in evaluating his own personnel program and deciding on what would be best for him might justifiably feel the time investment needed to read the book too high a price to pay for the dividends he'll receive.

By Robert H. Schaffer
Fred Rudge, Inc.
New Canaan, Connecticut

Recommended Readings For Small Businessmen

THE PRACTICE OF MANAGEMENT

Peter F. Drucker, Harper and Brothers, New York. 1954. 404 pages. Price $5.00.

The author calls this book a study of the most important function in American society and explains it as written for the layman. Divided into five parts: Managing a Business, Managing Managers, The Structure of Management, Management of Worker and Work, What It Means to Be a Manager.

A GUIDE TO MODERN MANAGEMENT METHODS

Perrin Stryker and the Editors of Fortune, McGraw-Hill Book Co., New York. 1954. 300 pages. Price $3.50.

Originally written as articles for Fortune magazine, the book is easy to read. Subject matter relates primarily to top management, its development, control and eventual retirement.

HOW TO RUN A SMALL BUSINESS

J. K. Lasser. McGraw-Hill Book Co., New York. 1955, 2nd edition. 350 pages. Price $4.95.

A practical book detailing the primary management functions with lists, check sheets and other devices for self-evaluation.

HOW TO ORGANIZE AND OPERATE A SMALL BUSINESS

Kelly and Lawyer. Prentice-Hall, Inc., New York. 1955, 2nd Edition. 713 pages. Price $9.25.

A textbook, reference and handbook all rolled into one; economic position, job opportunities, functional approach; covers retailing, wholesaling, manufacturing, and servicing.

SMALL PLANT MANAGEMENT

Edited by the late Dr. Edward H. Hempel, chairman, Small Plant Committee, A.S.M.E. McGraw-Hill Book Co., New York. 1950. 548 pages. Price $7.00.

Precisely written in four parts: Small Plants as Economic Factors, Management Tasks, How to Solve the Important Problems of Small Plant Management, and Small Plant Future.

PROFITABLE SMALL PLANT MANAGEMENT

Malcolm H. Gotterer. Chilton Book Division, Philadelphia, Pennsylvania. 1954. 318 pages. Price $5.50.

A purely functional approach to management, simply stated with illustrations and forms.

THE GROWTH AND DEVELOPMENT OF EXECUTIVES

Myles L. Mace, Harvard University, Boston. 1950. 200 pages. Price $3.25.

Presents tested methods of appraising and improving top and middle management.

THE DEVELOPMENT OF EXECUTIVE TALENT

Edited by M. Joseph Dooher and Vivienne Marquis. American Management Association, New York 36, N. Y. 1952. $7.75. (AMA members $5.75.)

The problem of developing competent managers is presented for analysis through case studies and articles compiled in this book.

THE TECHNIQUE OF EXECUTIVE CONTROL

Erwin H. Schell. McGraw-Hill Book Co., New York. 1950, 7th edition. 269 pages. Price $4.50.

Attitudes, tools and methods, and duties with emphasis on how to get along with associates.

SUCCESSFUL EXECUTIVE ACTION

Edward C. Schleh, Prentice-Hall, Inc., New York, N. Y. 1956. 272 pages. Price $10.00.

A "how" book relating primarily to successful administration of people.

THE EXECUTIVE AT WORK

Melvin T. Copeland, Harvard University Press, Cambridge, Mass. 1952. 278 pages. Price $4.25.

An experienced observer of the business executive sets forth management problems and shows with specific examples how these problems have been met.

EXECUTIVE ACTION

Learned, Ulrich, and Booz. Harvard University, Boston. 1951. 218 pages. Price $3.25.

Divided into two parts: The Executive World and Executives in Action.

MANAGEMENT AND MORALE

F. J. Roethlisberger. Harvard University Press, Cambridge, Mass. 1941. (10th printing, 1952) 194 pages. Price $3.50.

Basically an essay on the human aspects of management, based upon years of exacting research and study. Specific examples.

HUMAN RELATIONS IN SMALL INDUSTRY

John Perry. McGraw-Hill Book Co., New York. 1954. 313 pages. Price $5.50.

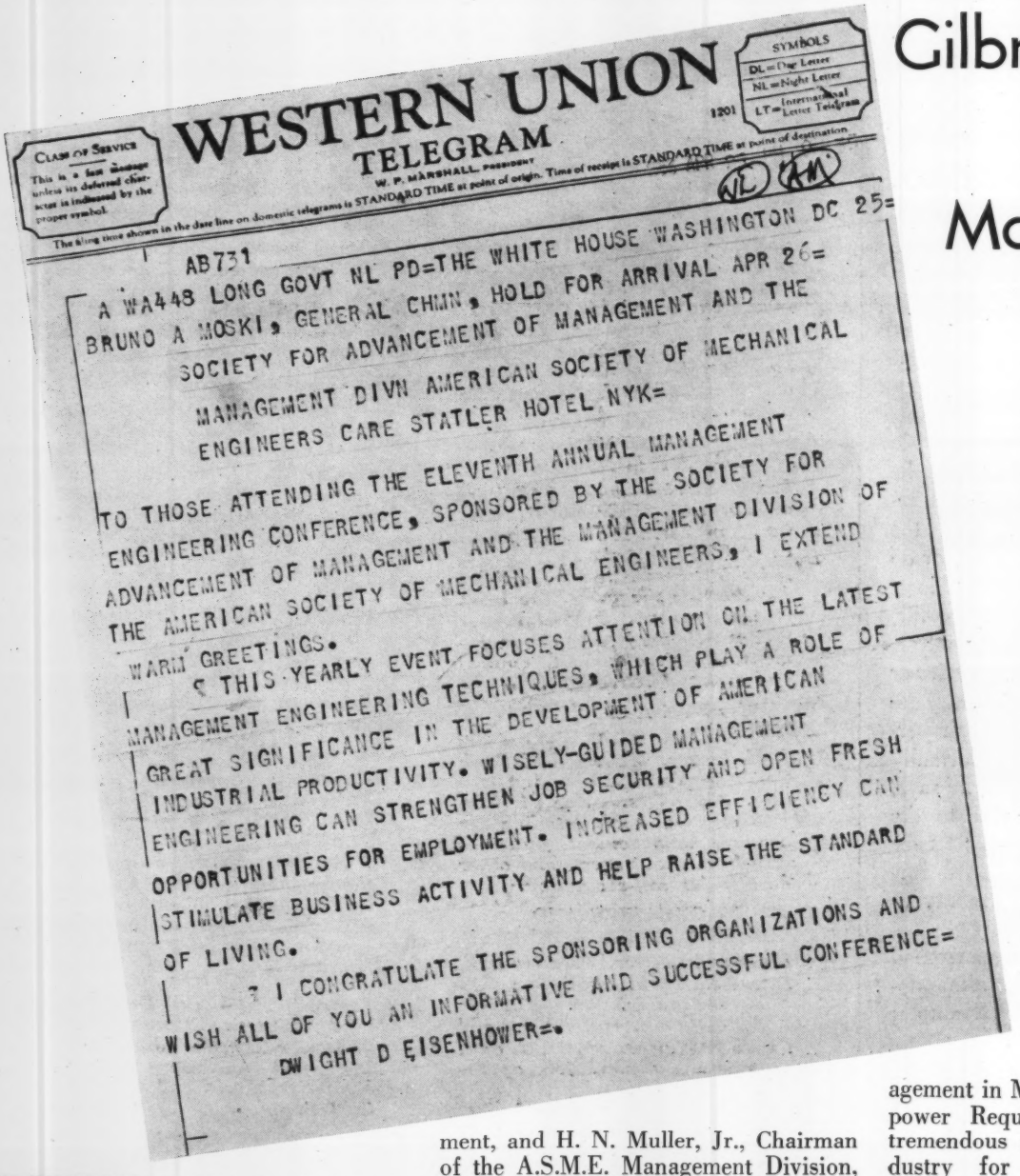
Written by an experienced businessman and consultant who understands what motivates men and knows how to explain it to the layman.

SUCCESSFUL LABOR RELATIONS FOR SMALL BUSINESS

James M. Black and J. Gorge Piccoli, McGraw-Hill Book Co., New York. 1953. 425 pages. Price $6.00.

This book runs the gamut of actual management-labor relations with emphasis upon the contract. Actual cases presented.

Gilbreth Medal at 11th Management



WESTERN UNION
TELEGRAM
W. P. MARSHALL, PRESIDENT
1201

CLASS OF SERVICE
This is a fast message unless its deferred character is indicated by the proper symbol.

SYMBOLS
DL = Day Letter
NL = Night Letter
LT = International Letter Telegram

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

NL KHM

AB731
A WA448 LONG GOVT NL PD=THE WHITE HOUSE WASHINGTON DC 25=
BRUNO A MOSKI, GENERAL CHMN, HOLD FOR ARRIVAL APR 26=
SOCIETY FOR ADVANCEMENT OF MANAGEMENT AND THE
MANAGEMENT DIVN AMERICAN SOCIETY OF MECHANICAL
ENGINEERS CARE STATLER HOTEL NYK=

TO THOSE ATTENDING THE ELEVENTH ANNUAL MANAGEMENT
ENGINEERING CONFERENCE, SPONSORED BY THE SOCIETY FOR
ADVANCEMENT OF MANAGEMENT AND THE MANAGEMENT DIVISION OF
THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS, I EXTEND
WARM GREETINGS.

THIS YEARLY EVENT FOCUSES ATTENTION ON THE LATEST
MANAGEMENT ENGINEERING TECHNIQUES, WHICH PLAY A ROLE OF
GREAT SIGNIFICANCE IN THE DEVELOPMENT OF AMERICAN
INDUSTRIAL PRODUCTIVITY. WISELY-GUIDED MANAGEMENT
ENGINEERING CAN STRENGTHEN JOB SECURITY AND OPEN FRESH
OPPORTUNITIES FOR EMPLOYMENT. INCREASED EFFICIENCY CAN
STIMULATE BUSINESS ACTIVITY AND HELP RAISE THE STANDARD
OF LIVING.

I CONGRATULATE THE SPONSORING ORGANIZATIONS AND
WISH ALL OF YOU AN INFORMATIVE AND SUCCESSFUL CONFERENCE=
DWIGHT D EISENHOWER=.

Left to Right: Matthew J. Murphy, A.S.M.E. General Conference Chairman and Editor of **"Factory Management and Maintenance"**; Dr. Frank F. Bradshaw, President of the Society for Advancement of Management and President of Richardson, Bellows, Henry and Company; Dr. Joseph Warren Barker, President of the American Society of Mechanical Engineers and Board Chairman and President of Research Corporation; and Bruno Moski, S.A.M. General Conference Chairman and Director of Industrial Engineering, Yale & Towne.

PRESIDENT Dwight D. Eisenhower extended his warm greetings and congratulations in a telegram (reproduced above) to the Society for Advancement of Management and the Management Division of the American Society of Mechanical Engineers, joint sponsors of the 11th Annual Management Engineering Conference held on April 26-27 at Hotel Statler in New York.

Keynoted by the President, the conference went on to a record-breaking success in every respect. Attracted by the sixteen distinguished technical speakers at the conference, 1239 management executives and engineers were in attendance through the two-day sessions devoted to the latest-proven management-engineering techniques of business and industry. This represented a twenty percent increase over the attendance at the previous year's affair.

Under the guidance of Harold R. Bixler, Executive Vice President of the Society for Advancement of Management, and H. N. Muller, Jr., Chairman of the A.S.M.E. Management Division, and jointly chaired by Bruno Moski, Director of Industrial Engineering for Yale and Towne, for S.A.M. and Matthew J. Murphy, Editor of Factory Management and Maintenance, for A.S.M.E., the hard-working Conference Committee drawn from both societies had surveyed the entire United States to bring to the conference the most able speakers on the new techniques of greatest practical interest to management executives and engineers, covering the key topics of Operations Research, Information Processing, Automation, Work Measurement, Statistical Techniques, Material Handling, Maintenance Control, and Cost Reduction. The full Conference Proceedings will be available shortly through the National S.A.M. Office.

The culmination of the conference came at the banquet on April 26. Dr. Joseph Warren Barker, President of the American Society of Mechanical Engineers, spoke on "The Role of Management in Meeting Technological Manpower Requirements," presenting the tremendous needs of business and industry for many more technically trained personnel in the present and in years to come as many of the recent far-reaching technical developments discussed at the conference are applied by more and more companies, and suggesting the cooperation of industry and education required to meet these needs.

During the same evening, Dr. Frank F. Bradshaw, President of the Society for Advancement of Management, and Allen H. Mogensen, Chairman of the Society's Gilbreth Award Committee, presented the 1956 S.A.M. Gilbreth Medal Award to Herbert F. Goodwin of M.I.T.'s School of Industrial Management, for the "distinguished service he has rendered to the industrial engineering movement." Professor Goodwin has been responsible for the development of the Management Laboratory at the School of Industrial Management and his entire career has been one of continuous research in methodology based on the fundamentals of improvement established by the Gilbreths.

Award Presentation Made Annual S.A.M.-A.S.M.E. Engineering Conference

In accepting the 1956 Gilbreth Award, Professor Goodwin stated:

"This is without a doubt one of the most humble moments in my life. It is, indeed, a great honor to be added to the distinguished list of those who have received this Award. It is also a tremendous responsibility to maintain the continuous high standard of achievement that they have established. It leaves one with a feeling that borders on inadequacy, yet stimulates a keen sense of urgency.

"The task is clear.

"In his search for the one best way, Frank Gilbreth often said, '*All too many jobs are improved that never should be done at all.*'

"The tools he developed are now widely known and broadly applied to find better methods. The scientist and engineer have added tools of their own which assist in finding the answers to hitherto unsolved management problems. We are finding new methods at an inconceivable rate. More techniques are being rapidly developed.

"May I beg the privilege of adding another sentence to Gilbreth's quotation? '*All too many improvements are conceived that never are effectively used.*'

"Our ability to find solutions may outstrip our capacity to recognize and cope with the problems involved in using them.

"There are far too many men of high thinking who assume that management will accept and use something new on its merits alone or that a simple 'order' will put the results of their technical knowledge into practice.

"A distinguished visitor from overseas says that he would 'cram it down their throats' if need be. All too often, I hear statements prefaced with the phrase, 'I think,' in a manner of speaking which implies that the expert has given his opinion and it should be accepted on that basis alone.

"We find ourselves on the brink of repeating the mistakes of the early days of scientific management. The seeds of doubt, mistrust, confusion, complication and fear are in evidence.

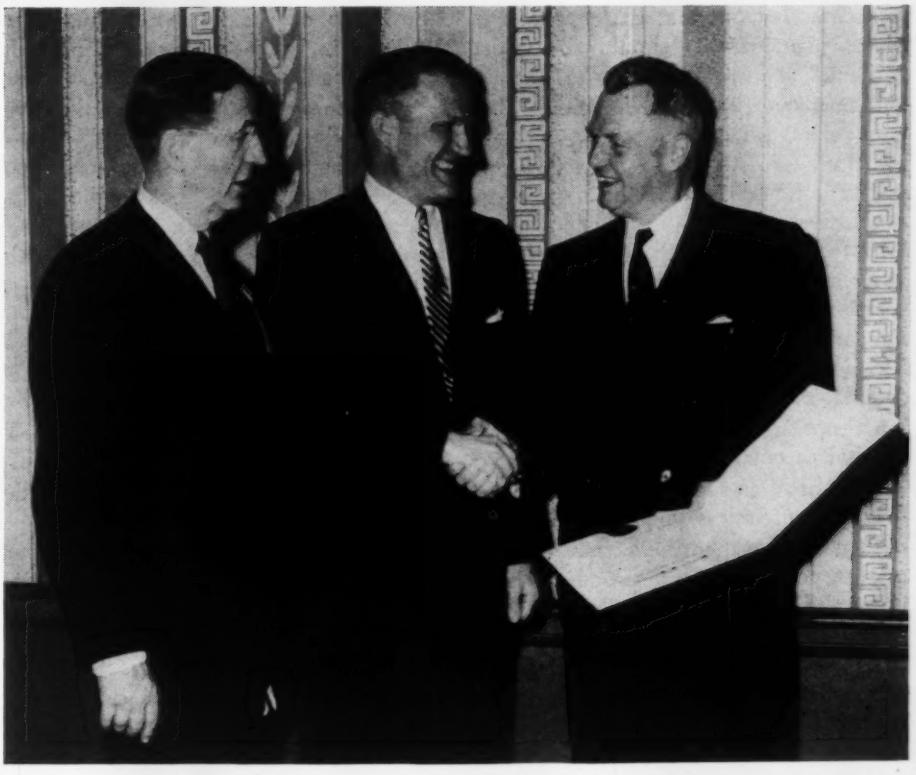
"The task is clear.

"We must accelerate the development of methods of involving everyone in the improvement process.

"We must realize that as technical knowledge increases, so must the avenues of communication be expanded to accommodate that increase.

"We must foster participation, understanding, education, tolerance and a willingness to share the glory.

"We must remember that the greatest thinking will come from the people who have the most brains, but the greatest power will come from all of the people working together as a team." ■



Dr. F. F. Bradshaw, **(left)** President of the Society for Advancement of Management and President of Richardson, Bellows, Henry and Company; Allan H. Mogensen, **(right)** Chairman of the Gilbreth Award Committee, Industrial Consultant, and recipient of the Gilbreth Medal in 1937, and Herbert F. Goodwin **(center)** recipient of the Gilbreth Award for this year. Mr. Goodwin is an Assistant Professor in the M.I.T. School of Industrial Management and Director of the Boston Chapter of S.A.M.

What is a typical life cycle of a small business? What specific factors may determine its success or failure? How can you check how you stand as a manager of your own business? How can you plan, build, and control your firm so that you will provide the coordinated management necessary for its success?

Coordinated Management For Small Business

By Clifford C. James

Dean, School of Business, Industry, and Management
University of Baltimore
Baltimore, Maryland

NEVER before in history was sound management more important than it is today. In prosperous times it is easy for us in management at all levels to become lax, yet that is the very time when management should be most vigilant.*

Management is a fluid function which must change with its needs, development and growth. A business develops entirely different management problems as it rises or drops from one volume level to another and these problems require entirely different knowledge for solution. With economic changes in our dynamic free enterprise economy, where competition is the order of the day, sound coordinated management is a must and facts and knowledge are just as vital as enterprise.

You have no foundation for sound management unless you know the facts influencing your business, such as your market potentials, your production and sales abilities to obtain your share of potential business, how to coordinate your sales and production functions for profit planning, and how to utilize every square foot of space and every piece of equipment, your manpower, and all other attributes of your business to the fullest.

The fact that the majority of small business failures come from poor management, and not from lack of capital as many believe, indicates that full knowledge of the facts affecting your business is just as necessary for small business as it is for big business. Proper profit planning and control could save many businessmen, but many also lack the imagination to see that money must be spent to make money, so they just sit, waiting for business, using up their capital, and slowly bleeding to death financially.

Let us look at a typical life cycle of a small business. How does a business, store, production service, or manufacturing plant live or die?

Stage 1 Money is invested in facilities, equipment, supplies, manpower, and promotion. There is little or no income.

Stage 2 Enough business is done to pay part or all of the operating expenses. However, the business is still loaded with debts.

Stage 3 The business is at the crossroads. Additional effort and promotion are needed to build the business to a profit position, possibly a more efficient management is needed, or more money. This is a point where the business can fail or begin to make real progress.

Stage 4 The business reaches a volume ceiling depending on such factors as market potential, drive and ability of the owner or manager, and so on. The business generally continues on this level, showing a profit until management becomes lax, promotion becomes sterile, competition keener because new busi-

CLIFFORD C. JAMES

A man of wide business experience, Clifford C. James has advised many large and small businesses throughout the United States and Canada on their marketing, public relations, and management problems. He was editor of **Economic Forum** and has written and spoken extensively on business and management subjects. He is Dean of the University of Baltimore's School of Business, Industry, and Management, which he founded in 1945. He conducts a popular Small Business Management Clinic over WBAL-TV and many seminars and workshops on management problems. He is President of the Baltimore Chapter of the Society for Advancement of Management.

* *Digested, with the permission of the author, from* The Clifford C. James Coordinated Management Programs.

nesses come into the field with fresh ideas, up-to-date facilities, and equipment.

Stage 5 The business is rapidly falling into an unprofitable position. Live competition entices customers away, volume drops, and morale becomes low. Stimulation is badly needed.

Stage 6 Another crossroads is reached. New and energetic management, new market analysis, new advertising and sales appeals, and sound procedures and controls are needed to keep business alive and lift it back into a competitive profitable position. Otherwise, the business will soon drift below the profit line and into failure.

SMALL BUSINESS ESSENTIALS

There is little difference between the management requirements of a small business and a large business, as this life cycle of a small business shows. It is only the extent of the business that differs.

As a small businessman, you must invest money to obtain adequate facilities and equipment and establish a sound financial operating basis. You must select, hire, train and supervise personnel, if you only employ one stenographer. You must purchase supplies, transportation, advertising, and everything else you use in your business.

You must produce, manufacture, or handle products or services, and you must market the products or services, studying your market and risking your money in advertising and sales effort to obtain customers. You must deliver the product or service in satisfactory condition before you receive full payment.

You must even build and maintain goodwill with the people of your community, other businessmen, influential groups, and media of communication.

In fact, as a small businessman it is even more vital for you to do these things efficiently. A big business hires experts to administer each of these functions of management and they generally have consultants to see that proper controls are established and maintained. You may have to do many of these things yourself. And if you don't make a profit you won't last long.

In order to see how you stand as a businessman, study the following questions carefully and check them honestly in terms of your experience:

PERSONAL FACTOR—Your personal attitudes and knowledge are vital to the success of your business.

Are you capable of managing a business?

Can you make decisions?

Can you supervise others and get cooperation?

Are you willing to argue for better terms?

Have you sound judgment?

Are you willing to sacrifice pleasure for long work hours?

Is your family with you 100%?

Are you willing to "gamble" money in sales and advertising effort?

ECONOMIC FACTOR—Economic conditions may greatly influence your business success.

Is this a good time for your business?

What is the economic outlook for future?

Which territories offer best potentials based on economic growth and current conditions?

Do conditions warrant expansion?

Do conditions indicate need or opportunity for diversification?

PRODUCT OR SERVICE FACTOR—People buy things they need or want as a rule.

Is your product or service a necessity or luxury?

Is it up-to-date? Can it be improved?

How does it compare with competition?

Is it properly packaged for protection, for customer convenience, sales appeal, and cost?

Do you offer adequate service?

CONSUMER FACTOR — Your customer, his wants, likes and dislikes, income status and buying habits are also vital factors.

Who are your customers or potential customers?

What are their income levels, economic status?

What are their age levels?

Are they in occupations that offer steady work?

Are their living conditions excellent, good, or poor?

Do they pay cash or want credit?

Are they good credit risks?

Are they used to buying your grade of products or service?

Are your products priced RIGHT for customers and competition?

DISTRIBUTION FACTOR — Distribution channels are the arteries between the production heart of your business and your customers. The greater distribution you have the greater are your possibilties of success?

Do you have adequate distribution?

Are you using the best distribution channels?

Are your territories well organized?

Are they thoroughly covered?

Do you have an adequate sales organization?

Are your salesmen well trained and efficient?

Are your outlets getting and using your promotion material?

Do you have a good service organization?

Are your discounts adequate and in line with industry?

Are you able to make quick deliveries?

Do you know your best shipping methods and costs?

LOCATION FACTOR — Location is vital to many businesses, particularly retail stores.

If retail or other service . . .

Is the location convenient for customers?

How many potential customers are in your market area?

Is competition normal? Are you getting your share of business?

Is neighborhood improving or deteriorating?

Is population in your area changing?

If manufacturing . . .

Is there plenty of good help available in area?

Are you located in best place for market coverage? Shipping facilities? Tax position?

FACILITIES AND EQUIPMENT FACTOR—A well planned plant and office, or store, painted in cheerful colors with modern equipment will improve the effiiciency of your staff, impress visitors and customers and save you money in the long run.

Are your facilities adequate for efficient operation?

Are they clean, neat, impressive?

Is your plant and office equipment modern and efficient?

Is your store efficiently laid out for customers convenience?

Are you using the best time and cost saving systems available?

Are your facilities and equipment being properly maintained?

PERSONNEL FACTOR—A business is only as good as the people running it, so one of the most important essentials for success is an organ-

ization of loyal, hard working, intelligent and cooperative employees and associates.

Do you and your associates get along well together?

Do your associates carry their end of the load?

Are they capable of doing the job assigned them?

Do you have adequate personnel for efficient operation?

Is each person properly trained for the job?

Is each person efficient in his job? Should some be fired?

Do you pay well, average, below average?

Do employees like to work for you?

Do you have good employee relations?

Do you offer incentives to employees?

Do you have a retirement plan?

Do you get to know employees and their families?

SALES AND PROMOTION FACTOR —Advertising and selling is the lifeblood of business. If you hope to compete you have to spend money to make money.

Have you a planned sales program?

Do you operate on a sales budget?

Do you use a sales kit?

Have you a sales training program?

Do your salesmen get paid for accomplishment?

Have you a planned advertising program and budget?

Do you spend the money you should on promotion?

Is your advertising good, poor, bad?

You should merchandise your advertising—do you?

MANAGEMENT FACTOR—Your business cannot continue long without profit and the job of management of each department is to assure a profit.

Do you have adequate working capital or credit?

Do you know your distribution and operating costs?

Is each department paying its way?

Are you making the best possible profit?

Do you have sound cost controls?

Do you have efficient purchasing and stock controls?

Do you have standards for each operation?

Do you have an efficient system in each department?

Do you have proper operating records?

Do you have adequate insurance?

Is each department capably managed?

Is there adequate coordination of each department?

These are just a few of the many questions a small businessman should ask himself periodically analyzing the answers carefully, yet these factors alone do not assure business success. The most successful advertising and sales program is useless if the profits are eaten up in sloppy office procedures, wrong figuring by your estimator, or unforeseen production costs. In some businesses shipping costs alone can be so varied that if they are not controlled they could eat up most of the profit.

That is why coordinated management is so vital to the small business manager. Only in this way can he control all operations of his business and see where he is going from day to day.

You may ask, "How can a small businessman with limited help control all these essential functions and efficiently run a business?" This is the sixty-four thousand dollar question and coordinated management is the answer. It actually is a three-phase program, consisting of planning, building, and controlling.

First, let us analyze PLANNING. You should plan your business for at least a year ahead:

- Analyze your market, determine its posibilities and what your potential customers *want* and *can afford.*
- Plan the selection of your products or services and your prices to adequately meet the desires of your market and its pocketbook.
- Set a sales quota based on your potentials.
- Determine your advertising needs and appropriate adequate money to do the job. Do the same with sales. Hold to your budget.
- Plan a coordinated advertising and sales program that has impact and appeal. Set up a schedule and stick to it.
- Plan your inventory to meet your needs, not your opinion.
- Plan your facilities, equipment, manpower and production to sales potential and ability for best profit. Coordinate your sales-production plans.
- Set up a budget covering each phase of your business so you will have a financial blueprint on which to operate.
- Plan for possible future financial nceds for emergency or expansion.
- Establish sound policies to guide you and your associates and to let your customers know where they and you stand.
- Plan your facilities for most efficient operation. Make them attractive to workers, visitors and customers.
- Plan to grow with your community and industry. Make periodic studies of trends in community and industry.
- Plan to continuously improve your products or services.
- Plan for *profit*—that is why you are in business.

Now let us look at the BUILDING phase—by which I mean carrying out the functions of the plan.

- It is important to have the proper associates and employees to carry our your policies and plans.
- Determine the right type of advertising to use, the best media and

CHAPTER HONOR ROLL

CONGRATULATIONS to the current leaders in the Chapter's Membership Campaign. Quotas attained to date are:

Puerto Rico	211%	N. N. Jersey	45%
Greenville	171%	Binghamton	43%
Bridgeport	140%	Hudson Val.	40%
Madison	140%	Greensboro	36%
Nashville	140%	W. Mass.	29%
Sacramento	140%	Milwaukee	26%
Clearing	125%	Boston	25%
Baltimore	123%	Cent. Penna.	25%
Montreal	120%	Calumet	23%
Fox Valley	116%	Dallas	19%
Knoxville	111%	Los Angeles	15%
Twin City	100%	C. New York	14%
Wilmington	100%	Raritan Val.	13%
Philadelphia	98%	Pittsburgh	11%
Providence	90%	Reading	10%
Columbus	89%	Trenton-Del. Valley	10%
Lancaster	76%	Georgia	9%
West. N. C.	60%	Cleveland	8%
San Fran.	56%	Chicago	7%
N. E. Penna	50%	Cincinnati	4%
Washington	50%		

time, then set up a program.

- Make your advertising do your missionary work so your salesmen can devote their time to prospects instead of suspects. Let the postman represent you. A direct mail piece will do a selling job before and after a personal visit.
- Build an able sales organization and pay for accomplishment.
- Don't forget you are also a salesman. People like to do business with the boss.
- Train your telephone operator and everyone representing you to tell your story the way you want it told —in a pleasant, helpful way.
- Make it a pleasure for people to visit your office, plant or store and do business with you. Let customers know your policies, stick to them, and they will develop confidence in you.
- When in doubt, give your customer the benefit of the doubt.
- Make sure you are near adequate supply of good help and convenient to market and shipping facilities. If retail store, select growing location, convenient to customers.
- Keep ahead of competition with better facilities, equipment, methods, products, and service.
- Accept your responsibilities in the civic life of your community.
- Remember, building a business is a continuous job requiring sound advertising and public relations effort, backed by intensive selling and good service. It is a job in which every member of the team plays an important part.

The third phase—CONTROLLING—is vital to your profit position—yet many small businessmen ignore this entirely. Without controls your business is like a ship in a fog without a compass—you may come out okay, but Heaven only knows where.

You cannot keep accurate records on slips of paper in your pockets. You must have a system and *that is the basis of controlling your business.*

- Budget each phase of your business and check the budget with monthly results.
- Budget and schedule your sales and advertising on a program basis for a specific period. Record sales in comparison to quota and previous years' sales by types and price of products or services sold.
- Establish efficient office procedures so that you can put your hand on any transaction at any time by use of proper forms and tools.
- Set up stock controls so that each item taken from stock will be automatically replaced or substituted. This will eliminate high inventories and dead stock. Take your loss quickly.
- Establish time and cost standards on each of your operations that can be measured so that you will have a sound basis for estimating and profit control.
- Use scheduling and control charts to plot your shop work so that you can see work progress from day to day. It gives you a record of job time, delivery, and actual cost against standard cost. This is just as profitable to a small business as to a large business.
- Set up financial and credit controls. Analyze tax saving possibilities. Make sure you have adequate and proper insurance for all needs. Analyze tax saving possibilities.
- Check possibilities of new scientific management methods, system and machines to improve efficiency and cut costs in office, plant or store.
- Establish sound personnel controls to know personnel needs and labor costs under all conditions.

You will probably ask, "How Am I Going to do All These Things?"

The answer is that with system and sound controls you will find it much easier to run your business than without them . . . and above everything else—*You Will Be Sure of Making a Profit.*

Coordinated management means that all departments of a business are coordinated to give better overall management control. If you run a one-man business this means, of course, that you must divide yourself into a number of executives—sales manager, office manager, shop manager, etc., and you must run each job independently of the other. You must also coordinate and be general manager of all departments. If you have associates to manage these departments you should concentrate on coordination and general management. ■

UNIVERSITY CHAPTER STANDINGS as of May 1956

Indiana University	263	University of Detroit	40
University of Texas	151	University of Florida	40
Boston College	140	Woodbury College	38
University of Illinois	120	Indiana Central College	37
Tenn. Poly. Inst., School of Business	116	University of Dayton	37
University of Connecticut	113	Butler University	36
Georgia Institute of Technology	111	Louisiana Polytechnic Institute	35
Alabama Polytechnic Institute	106	St. Johns University	34
University of Pittsburgh	99	University of Missouri	34
University of Oklahoma	95	Rensselaer Polytechnic Institute	33
St. Peter's School of Business	93	Western Michigan College	33
Ohio University	91	Lawrence Institute of Technology	32
Ohio State University	90	New York University	32
Louisiana State University	78	University of Bridgeport	32
Sacramento State College	75	Babson Institute	31
Mississippi State College	72	Miami Univ., Oxford, Ohio	31
LaSalle College	70	Kansas State College	30
University of California at Los Angeles	69	St. Louis Univ., Institute of Technology	30
Boston University	68	Southern Methodist University	30
University of Tennessee	67	Drexel Institute of Technology	29
University of Minnesota	66	Emory University	29
University of Pennsylvania	65	Cornell University	28
Georgetown University	64	Oregon State College	28
Franklin & Marshall College	63	Duquesne University	27
Hofstra College	63	Fenn College	27
George Washington University	62	Rider College	26
Los Angeles State College	62	Seton Hall University	25
Bowling Green State University	60	University of Rhode Island	24
Northeastern University	60	Antioch College	23
St. Joseph's College	57	College of William & Mary	23
University of Alabama	57	Wilkes College	23
University of Baltimore	57	Clarkson College of Technology	22
University of Wisconsin	57	University of Miami	22
Pennsylvania State College	53	DePaul University	21
Loyola University at Chicago	52	Loyola University at New Orleans	21
University of California at Berkeley	52	Rutgers Univ. at New Brunswick	21
Villanova University	51	American University	18
City College of New York	48	Roosevelt University	18
Guilford College	48	Syracuse University	18
Temple University	48	Southern Technical Institute	15
University of Richmond	44	West Virginia University	15
Newark College of Engineering	43	University of Southern California	14
North Texas State College	43	Michigan State College	12
		Pennsylvania Military College	8

What is "the prime difference between the small business that grows and the one that fails?" To make progress, you must have trend lines which indicate the direction of your business. The way to establish these is not on budgets or time periods, but on the basis of work standards. These enable you to weed out excess costs, to set up sound schedules and profit controls, and to manage your business efficiently.

Is Small Business Managed?

By Phil Carroll
Professional Engineer
Maplewood, New Jersey

"I CAN'T afford it," says the small business manager when we talk about most any modern management tool. But he needs more of them than big business does to keep his doors open. It's the small firms that fold up. The most frequent cause, according to reports, is lack of managing.

Larry Appley states the basic problem as, "Today, we have to run like hell just to stay even." That means we have to manage better—decide more quickly and be right more often.

To manage better, you need measures. You need to know, and quickly, whether your decisions add to profit—or to loss. You want to measure results to see if performances come out as you planned.

Before you can measure you must have some kind of yardstick. You may call it standard, budget or ratio. I think you need trend lines. My suggestion is that you should look beyond spot checks. My chief reasons are:

1. Business volume changes with the weather and costs change as a result.
2. Product mix changes with the whims of your customers and the degree of effectiveness of your selling efforts.
3. Time periods change with our abortive calendar days, now further distorted with holidays and vacations.

With these variables, it seems silly to me to compare one period with the next. I think you need more reliable gauges. And considering changes, you need to know how current performances compare with what they should have been under current conditions of volume and mix.

As I recall, Edgar Guest said it this way, "Success is what a man does with what he has." To succeed, you need gauges that are better than budgets. The garden variety of budgets include many excess costs that I call "management errors." These errors can be reduced. What happens to these excess costs depends upon whether you determine that it costs less to live with these errors, or to reduce them.

To make the proper choice, you have to know where the leaks are and how much they cost. Therefore, if you think in terms of budgets, that's all right. But remember, you should build up standards to measure with from what costs *should be* instead of figuring backwards from what they have been.

The underlying fundamental for measuring performance is stated in H. L. Gantt's book, "Work, Wages and Profits."[1] He writes, "In connection with the man's record, it is the most complete analysis we can make of the workings of a plant, and the one that will help us most quickly to bring into their proper channels things that have gone haphazard."

This is the key to measures of performance in small and large business. To make this clear, let's start with Alexander Heron's explanation in "No Sale —No Job."[2] He tells us that "the em-

[1] *McGraw-Hill Book Company—1913 p. 288.*
[2] *Harper & Brothers—1954 p. 83.*

PHIL CARROLL

After receiving his electrical engineering degree from the University of Michigan, Phil Carroll served in the Signal Corps during World War I and then entered Westinghouse as a student engineer, working in timestudy in three of their plants. He is a member of the National Society of Professional Engineers, a Life Fellow of A.S.M.E., and has served S.A.M. in many offices, as President of the Northern New Jersey Chapter, National Secretary, National Treasurer, and currently as Vice President in charge of Membership. He is author of **Timestudy For Cost Control, Timestudy Fundamentals For Foremen, How To Chart Timestudy Data, How To Control Production Costs,** and **How Foremen Can Control Costs.**

ployer acts as the agent for the worker in the task of selling the worker's work for the customer's dollars."

Notice, he does not say to sell products. He makes no mention of radios, automobiles or toaster stoves. He says the employer's task is to sell "work." This I call "conversion."

Conversion is what we do in industry. We convert some materials we purchase into forms that our customers will buy. And the measure of our conversion is the man's productive time.

The man's productive time brings together the managing, engineering, scheduling, purchasing and tooling skills of your plant. His productive time is long or short according to how well your internal suppliers perform.

Right away, we have to consider the difference between actual and "standard" time. Actual time may be any amount. In contrast, standard time is some stated length that gives you a base line from which to measure. Without some kind of standard times, you have no way of finding the cost leaks.

WORK STANDARDS NEEDED

So the primary measure you need is work standards in time. These should be the time required to do the operations while working at "normal" pace under "normal" conditions.

The "should be" excludes using past averages. The chief reason is that such times include management errors—the wasted effort you want to reduce.

Besides, actual times do not measure output. And you should know how much actual time you do turn out in salable goods. Salable production is the final measure of industrial performance.

Once you set correct standard times, you uncover two kinds of cost leaks. These are (1) lost time and (2) wasted effort. Lost time results from failures to plan. Wasted effort results from failure to specify and to follow up. Both interfere with turning out salable production. Both cause excess costs.

These errors are always with us because no plant can be run perfectly. For one thing, it would cost too much to attain perfection. For another, people run plants and people make mistakes. And you should decide whether you can afford to "live with" the mistakes or to spend part of the lost money and time to reduce them.

To sort out these "management errors," consider first what should be your normal working conditions. These regulate the time it should take to turn out your production. Then you can set normal times for your normal conditions.

Once times are set, you discover irregularities. Maybe these castings are too big or too hard. Perhaps those pieces won't fit because they are too small or too large.

Extra work is required. So extra time must be allowed. But you don't get any extra pieces for the extra time. Therefore, the extra time is not productive. Here is an excess cost. It reaches a much larger proportion in the small plants because too little time or skill is given to proper specifications.

Again, with standard times, you find interferences. Materials are not ready. Tools are not available. Machines break down. The foreman is in a meeting. So the man waits. You lose production.

Delays are not included in correct standards. Thus, waiting time should be reported as it occurs. Here is another excess cost and a loss in production. Machine tools are not working and so the overhead cost is high regardless of what the figures show.

A third gauge you gain from standard times is the measure of the man's performance. Does he work at the "normal" pace considering the allowances made for delay time and extra work when they occur? Is he skilled in his work? Has he been properly trained? Is he suited to his job? Is he interested?

Measuring the man's performance with standard times will not answer these questions. However, it will raise them if his performance is below standard. Here may be another excess cost and loss in productivity.

THREE VITAL MEASURES

The three vital measures of work performance are:

1. Standard time measures of salable output.
2. Measures of lost time and wasted work.
3. Performances of people on their work assignments.

For each of these, I would set up trend lines by department and in total. Each week, new points may be added to each curve.

The curve for output would reflect the volume of production being turned out. Along with this trend line, you can plot the standard time volume represented by incoming orders. A comparison of these two lines will point out when to change hours worked by the plant or the work force.

Along with these, you should plot the curve of the total standard time represented by shipments. Comparing this trend line with your curve of output will show if the work is standing around waiting for something. Failure to plan often causes the $10,000 partially assembled product to wait around for a 5¢ lock washer.

From these measures, you can set up other controls. For example, standard time measures of output supply a basis for inventory control. Remember that "value added" to material can be more readily and much more immediately controlled in standard time.

The curves of waiting time and wasted work should be plotted as percentages of the volume of output measured in standard time. These two give you direct readings of percent excess costs or losses in production.

PRODUCTIVITY INDICATOR

With these or on another chart, you want to plot man performance. This is the indicator of productivity. And it is the vital adjuster needed for sound work scheduling. You must plan work at the rate it will be done. Otherwise, either it piles up between operations or people wait for work.

You can utilize these same time standards for two other vital controls. First, standards adjusted with man performance are used for sound work scheduling. In turn, good scheduling can reduce process time and inventory. More importantly, it helps to improve deliveries to customers without the excess costs of expediting.

Second, you can check your order cycles against your standard times to see how long the work sits between operations. Then you can tighten schedules. You can cut down the "cushions." This will improve delivery promises, increase turnover and reduce inventory.

At this point I would introduce another performance report. It can be made up every day to show how many orders are shipped late. Each day, orders shipped may be tallied to columns headed 1, 5, 10, 20, 30 days to show for that day how many fell into each of the lateness classes.

As improvement is made, there are fewer tallies in the very late columns and more in the slightly late classes. The trend of your shipping performance

is apparent if this report shows each successive day as another added line on the same tally sheet.

So much for production. Now let's take a look at costs. You must get out production at reasonable costs or you go broke. Therefore, you need measures of cost performance.

CONVERSION COST CONTROL

To begin, I suggest that you think of labor and overhead together—as conversion. The reason is that overhead as a percent of labor is misleading. It contradicts progress. In general, you can't improve operations without spending overhead dollars. Obviously, this causes both the amount and the rate of overhead to go up. The real test is whether you spend less to make improvements than you save.

Overhead plus labor divided by standard time is the conversion rate. Many plants use this thinking when they quote in terms of eight or ten dollars an hour on work to be done for outsiders.

Thinking in conversion cost gets away from worrying about the double jump in overhead rate that results, for example, from spending overhead money to reduce labor costs.

Besides, overhead ratios are erroneous. Ratios change with volume. This happens because there is a large constant cost in plant expense. Thus, when overhead is divided by a small volume, the ratio is sure to go way up.

Naturally, this constant expense affects conversion cost also. So to measure performance, you should determine what the conversion cost should be over the range in volume you expect. This is done in three steps.

First, plot your expenses against a volume scale of standard time. Then adjust your expenses to meet the plans you have in mind. Draw in your trend lines of expenses.

Second, determine what production you expect to turn out in a normal year. Translate that volume into standard time. This enables you to read off your trend curves the expenses for normal volume.

Third, divide your volume scale into your expense lines. This will give you a curve of conversion costs you can expect at any volume. Then as volume changes, your expenses are in control when your expenses per unit of standard time compare favorably with your expected cost line.

The conversion cost for normal volume is one point on this line. You could call this your "standard cost" of conversion. Looking at any cost as a standard is to say, "That's what it should be regardless of volume." Thus, you can draw a horizontal line through the normal cost point and establish another performance measure.

This measure permits you to separate the expense variance due solely to volume. Volume variance is the difference between the horizontal line of cost at normal and the curved line of expected costs. When volume rises above normal, we expect a plus variance and contrariwise.

Conversion costs might be better or worse than you expected. Thus, there are performance variances too. Therefore, it is important to separate these two variances. Only then can you tell (1) how much of a cost change is caused by volume change and (2) how much by good or poor management.

Now there is another angle to expense control that should be studied as your products become more diversified. For example, "Is your overhead the same for an assembly as for spare parts?" "No", I say. For one thing, order processing through invoicing is several times more costly for the spare parts. Many other expenses like time-study and production control go up rapidly for small orders. The reverse may be true of engineering expense.

Thus, I think you should (1) break down overhead by types of products, (2) assign each item of expense to the products that cause it, and (3) build up the volumes of standard times output in the same groupings. Then (4) you should divide expenses assigned to your several products by corresponding volumes in standard times to get your product conversion rates. As you would expect, management costs for different products will differ.

PROFIT CONTROL

You need such overhead breakdowns if your production is mixed. You can get very wrong cost answers with an average overhead rate for all but your average product. And in any small business it is vital to know where your profits are made—or *lost.*

This allocation of overhead to specific products is thoroughly practical. A 50 man plant has used it for years. Its results were so prompt and so useful to management and its costs of reporting so low that one of our largest corporations sent representatives to see how it was done. Another 150 man plant has made some major improvements in profit proportion since it took constructive actions from cost-price facts brought out by this analysis.

MATERIAL COST CONTROL

You can do the most about controlling conversion cost. Your material is bought at competitive prices. Even so, you must control material wastes. Deliberately, I put material last. That's because so many managers are mislead by percent figures that include material costs. Sales dollar measures of your management performance are perhaps the worst you can use.

Nevertheless, material costs may be a large part of your sales dollar. So you must control them in two ways. First is to measure material wastes beyond those required to make your products. Also, avoid using any average waste percent. Some of your products may cause more waste than others.

Second is to measure the difference between price standards you set up and prices you pay. Excesses in price may be due to failure to plan ahead. But the excesses should not be buried in actual costs. You want a trend line to show how material prices are moving, both to anticipate changes in your product pricing and to measure the skill of your Purchasing Department.

Finally, I suggest keeping trend lines by products for both price variances and usage variances to see what your progress is in controlling these important parts of cost.

Costs are the vital summaries of performances. They tell you whether or not you can compete successfully. Costs have to be less than your customers will pay you if you are to stay in business. You must make profits. Otherwise, all you get out of working is exercise.

You need more realistic costs to guide your business decisions. You want to push your more profitable products and to reduce costs on those less profitable.

To make progress, you must have trend lines that tell you "how you're doin'." Set up the important gauges and watch them. Take action when the cost leaks get out of your line of progress. And, to my way of thinking, this is the prime difference between the small business that grows bigger and the one that fails. This is the core of better managing. ■

In the face of a rash of guaranteed annual wage plans, many companies will have to develop successful ways of stabilizing their sales, production, and employment. Rejecting the traditional stabilization techniques as too narrow, the authors propose "the approach to stabilization which emphasizes better management in all areas of the business and considers that expansion of the enterprise is basic to the achievement of stability." They discuss how long-range planning, product and productivity research, sales expansion, and creative management can actually provide a solid yet flexible foundation for a company in the future.

Prerequisites For A Guaranteed Annual Wage

By Henry C. Thole and Charles C. Gibbons

The W. E. Upjohn Institute for Community Research
Kalamazoo, Michigan

THE achievement of stability now looms larger than ever as a problem confronting American business. The recent trend in industry to supplement unemployment compensation makes it clear that planning for stability of sales, production and employment will be one of the greatest challanges facing management in the years ahead. An analysis of recent contracts providing supplementary unemployment compensation reveals that the number of contracts containing such provisions is increasing rapidly. Contracts providing supplementary unemployment compensation have already been negotiated in the following industries: automobile, automobile parts, rubber, motor trucks, steel containers, farm equipment, aviation, and plate glass. This month the major steel companies are negotiating with the United Steelworkers, whose bargaining agenda includes supplemental unemployment benefits. The purpose of this paper is to discuss some of the more important methods of stabilizing the sales, production, and unemployment of a company.

Two companies in the steel container industry, American Can Company and Continental Can Company, already have signed contracts providing 52 weeks of supplementary unemployment compensation benefits to their employees. These benefits, including unemployment compensation, in both cases amount to 65% of take-home pay. While the payments to be made to employees are supplements to unemployment compensation, and while there is a maximum limit to the funds, these plans are closely related to traditional guaranteed annual wage plans. Plans similar to those of Continental Can and American Can will become the goal of organized labor in the future. Such heavy obligations would be a burden to companies which could not provide steady employment. To meet this challenge many companies will have to search intensively for a successful approach to stabilization of sales, production, and employment. In this paper we shall outline an approach that can profitably be used by managers to increase stability in their firms.

The traditional approach in studying the possibilities for stabilization within the individual firm is to investigate several so-called stabilization techniques. The following techniques are the ones proposed most often for the stabilization of employment: producing for stock, developing a new product to fill in during slack seasons, training for versatility, transfer of workers, and making seasonal buying habits more regular. These techniques are useful and every well-managed corporation should apply them to its operations wherever such techniques are applicable.

We believe, however, that limiting the search for stabilization measures to such techniques is too narrow an approach to the problem. Most companies will find it more profitable to emphasize management improvement in all areas of the business rather than to use only the standard stabilization techniques. Even the traditional stabilization techniques depend for their success on excellent management in those areas where

DR. CHARLES C. GIBBONS has been Industrial Program Director of the W. E. Upjohn Institute for Community Research since 1945, previously Director of Personnel Research for the Owens-Illinois Glass Company. He received his Ph.D. from Ohio State University and his B.S. and M.A. degrees from Ohio University and is a Fellow in Industrial Psychology of the American Psychological Association.

HENRY C. THOLE received his B.A. and M.A. degrees from Kalamazoo College before becoming Industrial Project Director of the Upjohn Institute. He is co-editor, with Charles C. Gibbons, of a book of readings, "Business Action In A Changing World," to be published this month.

The W. E. Upjohn Institute of Community Research, established in 1945 in Kalamazoo, Michigan, is a privately sponsored nonprofit organization for research on the economic, industrial and community problems related to employment and unemployment.

they are to be applied. Transfer of workers, for example, depends on good union relations to gain labor acceptance and on employment procedures which secure workers able and willing to perform jobs other than those for which they were hired. Production for stock depends on sound sales forecasts and on good inventory control. Production for stock without sound procedures in these areas would be unworkable and might even endanger the survival of the company. The development of a new product to fill in valleys caused by seasonal demand likewise depends on good management. Research and engineering must work closely with sales so that the new products developed will conform to consumer preferences.

Another limitation to the traditional stabilization techniques is that they emphasize what management can do to level out short-range fluctuations in the existing level of sales, production, and employment. Production for stock results in smoothing out the existing level of production. Making customer buying habits more regular through such techniques as stimulating advance orders results in regularization of the existing level of sales. Flexible hours, sharing work, and deferring work likewise result in dividing up the existing amount of employment. Such techniques are defensive measures aimed at adapting the firm to conditions as they exist.

EXPANSION ESSENTIAL

On the other hand, the approach to stabilization which emphasizes better management in all areas of the business considers that expansion of the enterprise is basic to the achievement of stability. This approach considers offensive as well as defensive measures to increase stability and, as such, is valuable in combating cyclical as well as seasonal fluctuations.

It would be impossible to improve simultaneously every important area of management. For best results management should select areas in its business which hold the greatest promise for improving company stability. The areas selected may be different for firms in different industries. Creating new markets, for example, may be the most important problem of a firm in the chemical or mass production industries, which are characterized by high overhead costs; but design and consumer perferences may be most important in an industry such as women's clothing. Problems may vary also among firms in the same industry. In attempting to expand markets, one company may choose to expand by extending the geographical area in which goods are sold and another may choose to expand by reducing costs so that prices may be reduced. Each company must decide which factors are most important to it, considering its industry and the major characteristics of its business.

KEY STABILITY AREAS

While the approach to company stabilization will vary among different companies, there are several key areas which are likely to offer the greatest promise for improving stability. The remainder of this paper will be devoted to a discussion of these key areas, leaving the job of determining the proper emphasis to the individual reader. The following are considered by the authors to offer the greatest promise for increasing company stability: (1) long-range planning, (2) research on products and productivity, and (3) expanding and stabilizing sales.

Long-range planning is essential to healthy growth and development of a company. It enables a company to balance important objectives in the various phases of the business. Future requirements must be balanced against present day needs. Often sacrifices need to be made today in order to assure long-run continuity of operation. There are many examples of long-range company planning which illustrate this point. The United States Steel Corporation purchased the Mesabi Range 30 years prior to actual needs in order to assure itself of ore reserves important to the continued operation of the company. The Crown Zellerbach Corporation has replanted thousands of acres of forest land so that the supply of wood pulp 50 years hence will be assured. The American Pulley Company has established a funded reserve to offset the effect of cyclical fluctuations on its business. Years before television became popular, the American Telephone and Telegraph Company started to provide the facilities required to service the television industry. Such long-range plans as these are fundamental to long-run company prosperity.

The successful solution to many business problems requires long-range planning. Developing a new product, for example, often takes 10 to 15 years from the initial planning stage to finished product. Constructing a new plant certainly involves long-term planning, since the useful life of the plant may easily extend to 20 or 30 years. Advertising is often more effective if continued over a long span of time. Even building an effective dealer organization is likely to take 5 or 10 years. On such problems, managers are constantly making long-range decisions, whether they are making them consciously or unconsciously. To make sounder decisions on these important matters management needs to place greater emphasis on long-range planning.

Achieving growth while maintaining reasonable stability necessitates a thorough plan covering the major elements of the business. Major emphasis must be placed on developing new products and services, increasing productivity, and expanding and stabilizing sales. Other important areas which must be covered by long-term plans are finances, facilities, personnel requirements, and organization. While emphasis will differ with each company, all of these areas are important for most companies. Omitting any one element may cause weaknesses which will retard the growth of the enterprise.

To be effective, long-range plans must make provision for change. Long-range planning without a high degree of flexibility would be useless. No company can accurately make plans for 5 or 10 years ahead. Plans must be restudied constantly, and revised as conditions change. Plans made with provision for change are possible of attainment, but those made without subsequent follow-up are likely to be abandoned.

EMERGENCY READINESS

A company's plans must be flexible enough to meet emergencies as they arise. In a dynamic economy there is always the possibility of sudden change. Since the beginning of World War II, there have been almost constant demands to increase production. Wars and threats of war, combined with high consumer demand, have placed stress on manufacturing, engineering, and related activities. Along with a readiness to increase production, there must also be a readiness to change product lines. It now appears that cold war may last indefinitely. Such a situation requires constant readiness to switch from civilian to defense production and back again. Many companies are now producing both "guns and butter"; others

Editor Moves to Ronald Press

JOSEPH H. JACKSON, Editor of *Advanced Management* and Publications Director of the Society for Advancement of Management, has accepted an editorial opportunity with The Ronald Press Company, New York publishers of nonfiction of all types, starting on June 1st.

In his new position, Dr. Jackson will concentrate on the editing of business books, handbooks, and standard reference works, for which Ronald Press has established an outstanding reputation among business and professional people and educators during its fifty-six years in the publishing field.

Dr. Jackson will bring to this new position his experience with *Advanced Management* and the Society, and his former work as editor and business manager of the *Journal of Industrial Training*. Prior to this he had many years' experience in personnel, labor relations, and administrative positions with the New Britain Machine Company, the Columbia Broadcasting System, and the American Gas and Electric Company, as well as conference and teaching work with the New York State School of Industrial and Labor Relations at Cornell University and research work for the Columbia Broadcasting System.

---

must be ready to change in the event of an emergency.

Flexibility in planning must, finally, take into account the emergencies that may arise from sudden decreases in demand. A dynamic economy is characterized by rapid growth and subsequent readjustment, and there is always the possibility of a sudden drop. In an economy where the consumer is king, there is always danger of a decline in the sales of an individual firm.

One of the firm's best resources for growth and stability in a changing world is an active product research department. Many companies have invested heavily in research to promote steady growth in their sales and profits. In a dynamic economy with growing population, changing age distribution, increasing per capita income, and rising standards of living, there will be constant change and improvement in products.

NEW PRODUCT RESEARCH

As a result of increased efforts in research by aggressive firms, there is sure to be an accelerated rate of technological innovation in the future. New products, new services, new processes, and new materials will undoubtedly be marketed in increasing numbers. Established products of today will become obsolete tomorrow. Survival and growth will depend on the ability of the individual company to develop new and improved products and services.

The importance of developing new products has been illustrated in a study by Brookings Institution entitled "Big Business in a Competitive Society." The following quotation from a summary of this study compares lists of the 100 largest corporations in 1909 and 1948 and suggests some of the factors that enabled 31 firms to remain in this select group during the entire period of study.

"What stands out from the two lists —and the reader may develop variations on the theme merely by inspection—is the way in which the financial resources of Big Business have constantly shifted. The companies that have grown are those that have been able to convert technological progress into customer preferences. Few that have stuck to their traditional product lines—and none that have retained traditional methods—have grown in stature either within the family of the 100 largest or in the economy as a whole. There is no reason to believe that those now at the top will stay there except as they keep fully abreast in the race of innovation, i.e., of competition.[1]"

Increased productivity has been responsible for much of the expansion which has taken place in the U. S. economy during the past 50 years. Numerous small changes in equipment, methods, processes, and management techniques enable firms to produce the same amount of goods with less manpower and equipment or to expand production using the same amount of manpower and equipment. The net effect of each change is small, but the cumulative effect of hundreds and thousands of such changes is considerable. These changes keep a company healthy, ever ready to expand. Consequently, in seeking methods of expanding and stabilizing operations, measures to increase productivity should be among the first ones considered.

RESEARCH UPS PRODUCTIVITY

Crawford H. Greenewalt, president of E. I. du Pont de Nemours and Company very aptly describes the role of research in increasing productivity.

"We like, of course, to think about research in terms of the startling new product that springs from the test tube to the accompaniment of lyric headlines. At du Pont we like to talk about moisture proof cellophane, about neoprene, and about nylon. In addition to being fodder for good publicity, these developments have certainly contributed largely to our corporate prosperity. In retrospect, however, I doubt that such individually spectacular accomplishments would account for as much as half of our growth over the last twenty-five to thirty years.

"It is easy to overemphasize the new and in so doing to pay insufficient tribute to what might be called 'bit-by-bit' research. By this I mean the day-to-day effort that produces results which over a short period seem inconsequential, but which over the long run are extraordinarily important. It would be my guess that the average research man in the du Pont Co. would have to work for two or three lifetimes before being associated with a development that hit the headlines. He pays his way not by the spectacular but by the bit-by-bit process of incremental accomplishment.

"To be more specific, let me mention the progress of cellophane. We enjoyed headlining the invention of the moisture-proofing process that for the first time put cellophane on its commercial feet. That was a spectacular and quite extraordinary development. On the other hand, during the last twenty-five years the output of a cellophane-casting machine has been increased sixfold, the output per man-hour fifteenfold, and the pounds produced per dollar of investment have been increased sevenfold. And it is these results that have made cellophane the important product it has become today, that have put its price at a sufficiently low level to make it generally useful. During any given year, process and product improvements, while solid and sure, are likely to be completely unspectacular. Over the

---

[1] *Kaplan, A.D.H., and Alfred E. Kahn. "Big Business in a Competitive Society," FORTUNE, Section 2, 47 (February 1953). Pp. 14.*

long term, however, they make the difference between a static and a burgeoning economy."[2]

While Mr. Greenewalt's remarks deal with improvements in products and processes, they apply equally well to improvements in all areas of the business. Every company can assure itself of increasing productivity by carrying on a continuous management improvement program. Such a program will emphasize research in its broadest sense and should cover all facets of the enterprise. Increasing productivity depends first of all on the competence and skill of management. It depends on efficiency of capital plant and equipment, and on good plant layout and flow of work. Increasing and stabilizing sales are important also because they enable a company to utilize capacity. Production planning and control are essential to productivity inasmuch as they contribute to the best and cheapest method of production. Sound financial administration is necessary, for without the proper type and amount of financing, new plant and equipment would be unobtainable. And, finally, sound personnel administration is essential to increased productivity because it makes possible a more effective utilization of human resources.

[2]*Greenewalt, Crawford H. "The Slow Steady Way of Progress," FORTUNE, 51 (May 1955). Pp. 100-101, 198ff.*

COMPETITIVE MARKETING

One of the best methods of obtaining company stability in a dynamic economy is through continual expansion of the business. Growth companies are seldom beset by problems of unemployment, idle capacity, and unprofitability. More often the managers of growth companies are concerned with obtaining enough resources and manpower to keep the company growing. The dynamic American economy provides opportunities for continuous growth for the majority of business firms. Increasing population, increasing per capita income, new methods and new processes provide almost unlimited opportunities for expansion.

Planning for stability, therefore, should place much emphasis on the function of marketing. The climax in the industrial process is the sale of the product to a consumer. All the planning, product development, production, and merchandising are steps toward this end. Unless the product can be sold at a profit, the other phases of a company's operation must be curtailed or even terminated. These obvious truths indicate the importance of selling in enabling a company to survive and grow. Specifically, the sales management of a company has two important contributions to make: (1) to increase the volume of sales, and (2) to provide reasonable stability in the level of sales.

STABILIZING SALES

While creativity is needed in all areas of management, nowhere is it needed more than in marketing. With the rise in the standard of living, more and more purchases are falling within the range of consumer choice rather than in the category of necessities. Competition, therefore, is not only among producers of the same articles, but increasingly among producers of widely different products. Television sets compete with dishwashers, power mowers compete with automatic washers, and all of these compete with the consumer's desire for a second automobile. By effective promotion, therefore, a manufacturer can expand significantly the market for his products.

In the difficult job of expanding and stabilizing the sales of a company, management should be guided by an active market research program. Factors such as population trends, the marriage rate, and the redistribution of purchasing power, should have an influence on the development of marketing plans. Market research can make a contribution in these broad areas as well as in specific areas such as market potentials, consumer preferences, and distribution channels.

In addition to raising the level of sales, management must be concerned

CONFERENCE PROCEEDINGS

10th Anniversary
TIME STUDY METHODS
Conference

New York City
April 28-29, 1955

"Retooling Management for Competition" is thoroughly challenged in papers by specialists: **James M. Kalbach, Jr., C. S. Kopcsak, Prof. Marvin E. Mundel, George Gustat, George Romney, Charles R. Hautau, James Bright, Harold F. Smiddy, Harold B. Maynard, Robert W. Truxell, Ralph D. Presgrave, Don F. Copell, John E. Walters, C. William Bryant, Phil Carroll, Frank O. Pierson, Oscar H. Nielson, Ervin Seltzer, and Harold Dunlap.**

Members: $3.50
Non-Members: $5.00

GUARANTEED ANNUAL WAGE
Conference

New York City
March 10-11, 1955

C. Wilson Randle of Booz, Allen & Hamilton
Richard C. Brockway, N. Y. Labor Department Director
Stanley Rector, Unemployment Benefit Advisors, Inc.
Arthur Felton, Bruce Payne Associates Inc.
Millard C. Faught, Business Economist
David Lasser, IUE-CIO Research Director
Frank Rising, Auto Parts Mfrs. Association
Wm. E. Schlender, Ohio State University
Prof. Jules Backman, N. Y. University
Hiram S. Hall, Labor Relations Consultant

Members: $5.00
Non-Members: $7.50

Order your copy from:
Society for Advancement of Management
74 Fifth Avenue • New York 11, N. Y.

with reducing fluctuations in sales to a minimum. A factory using mass production methods cannot operate efficiently with marked fluctuations in volume. Heavy capitalization, high breakeven points, loss of skilled workers, and pay for laid off workers, are some of the factors which make fluctuations in production costly.

In spite of efforts to increase and stabilize the level of sales, there will be periods in the experience of most companies when sales decline considerably. A wise management will be prepared for such periods. There should be advance planning as to what level of expenditure for sales promotion is appropriate during such periods. There is a tendency among many companies to reduce drastically expenditures for sales promotion during periods of business decline. Although such curtailment may be necessary in many cases, it may in other cases be quite unwise, since it results in reducing such expenditures at the very time when they may be most useful. In the recession of 1949, for example, many companies were successful in combining increased promotion with lower prices to maintain and even raise the level of sales.

GREATER CREATIVITY

The degree of growth and stability achieved by a company depends to a great extent on the caliber of management personnel. The intense competition which characterizes American industrial activity puts a premium on creative management. Managers must be cognizant of the ever-changing nature of the economy, and must be able to adapt company operations to these changing conditions.

The need for creative management is sure to increase in the years ahead. The pace of change, particularly as it affects the business manager, seems certain to be accelerated in the future. Automation, increasing expenditures for research, the application of atomic energy, and new management techniques will increase the rapidity of change.

There are many important factors that influence the creativity of individuals: the free flow of information on company problems, opportunity to explore new ideas, some freedom from pressure of everyday work, and opportunity for the individual to have a voice in planning his work. The authors would like to emphasize one aspect of developing creativity, that of increasing

NATIONAL MEETING DATES
1956

June 22, 1956.....Executive Committee
June 23, 1956.....Board of Directors

the participation of management and other employees in the search for new and creative ideas. In our work with individual firms we have found that efforts to increase participation are likely to lead to substantial improvement in the firm's operations.

Achieving growth and stability of company operations requires good ideas: ideas for new products and services which will create new markets; ideas for cost reduction which will enable the company to lower prices; ideas for increasing efficiency which will increase profits and stimulate investment. These ideas, of course, are supplied by the employees of the business.

An important aspect of planning for stability, then, is to increase the flow of ideas regarding improvements in basic operations of the company. One of the ways in which this can be accomplished is to encourage greater participation by employees at all levels. Few managers now obtain the degree of participation which is desirable. There is great potential for increasing the profitability and stability of a company by adopting such participation as a conscious goal. To do this, management must establish and maintain a climate which is favorable to the stimulation of ideas.

One important aspect of stimulating participation is to encourage suggestions from employees. The chief executive and others high in the management hierarchy should encourage subordinates to make suggestions for improvements in the company. Executives of many companies have been successful in creating a high level of participation by informally seeking out and listening to suggestions from subordinates. If it is generally known that employees are rewarded for their ideas, and if there is no fear of criticism or recrimination, a favorable climate for obtaining the best thinking of the entire organization will be established.

Officers and other key people are more likely than rank-and-file employees to contribute important ideas for improving company operations. An effective means of obtaining ideas from key people is to have a trained investigator conduct interviews with each of them. A program of interviews to stimulate key people to contribute their ideas regarding improvements needed has been carried on by the authors in several companies. Broad questions concerning all phases of operations are used to stimulate management people to contribute ideas that have not been proposed through the regular organization channels. After the ideas are collected, a report containing the major ideas is prepared and presented to the head of the department studied and to the chief executive. Identities of persons making the suggestions are not disclosed. Providing the opportunity for management personnel to express their ideas improves the climate of the organization in addition to providing worth-while suggestions for improvements in operations. The guaranteed annual wage is the latest in a series of pressures on the American business firm, pressures which make production cutbacks extremely costly and hazardous. Management action to reduce fluctuations cannot be confined to the traditional techniques of business stabilization. It must extend, rather, to improvement in the functioning of management itself, in all phases of the company's business.

STABILITY THROUGH GROWTH

We have suggested three areas in which most companies are likely to find promising opportunities for improvement: (1) long-range planning, (2) research on products and productivity, and (3) expanding and stabilizing sales. The foundation of improvement in these three areas—and, indeed, in all other areas—is the creativity of management personnel. Managers who appreciate the importance of creativity will encourage employees at all levels to contribute their ideas for the improvement of the company's operations.

While a dynamic economy creates uncertainty and risk for enterprises, it also creates opportunity. Growth in population, increasing per capita income, new ways of living, and new technology provide opportunities for aggressive firms to expand. Wise managers will seize these opportunities to achieve growth and stability for their enterprises. ■